Systemic Fear, Modern Finance and the Future of Capitalism

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CHART BOOK

For a presentation by Jonathan Nitzan
Seoul, September 29, 2010

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Related Publications and Presentations

1. Bichler, Shimshon, and Jonathan Nitzan. 2010. Imperialism and Financialism. A Story of a Nexus (Revised and Expanded). Monograph, Jerusalem and Montreal, September, pp. 1-29. http://bnarchives.yorku.ca/294/

2. Bichler, Shimshon, and Jonathan Nitzan. 2010. Capital as Power: Toward a New Cosmology of Capitalism. May. Jerusalem and Montreal, pp. 1-23. http://bnarchives.yorku.ca/285/

3. Bichler, Shimshon, and Jonathan Nitzan. 2010. Systemic Fear, Modern Finance and the Future of Capitalism. Monograph, Jerusalem and Montreal, July, pp. 1-42. http://bnarchives.yorku.ca/289/

4. Nitzan, Jonathan, and Shimshon Bichler. 2009. *Capital As Power: A Study of Order and Creorder*. RIPE Series in Global Political Economy. New York and London: Routledge. http://bnarchives.yorku.ca/259/

5. Nitzan, Jonathan, and Shimshon Bichler. 2009. Contours of Crisis III: Systemic Fear and Forward-Looking Finance. *Dollars & Sense*, June 12, pp. 1-13. http://bnarchives.yorku.ca/262/

6. Bichler, Shimshon, and Jonathan Nitzan. 2009. Contours of Crisis II: Fiction and Reality. *Dollars & Sense*, April 28, pp. 1-26. http://bnarchives.yorku.ca/258/

7. Bichler, Shimshon, and Jonathan Nitzan. 2008. Contours of Crisis: Plus ça change, plus c'est pareil? *Dollars & Sense*, December 29, pp. 1-13. http://bnarchives.yorku.ca/255/

8. Nitzan, Jonathan. 2008. Accumulation through Crisis. Global Stagflation and the New Wars. Presentation at Harvard Law School as part of a series of lectures on 'Confronting Empire: Five Years of War in Iraq'. 18 March. http://bnarchives.yorku.ca/250/

9. Bichler, Shimshon, and Jonathan Nitzan. 2006. Elementary Particles of the Capitalist Mode of Power. Paper read at Rethinking Marxism, October 26-28, University of Amherst, Mass. http://bnarchives.yorku.ca/215/

10. Nitzan, Jonathan, and Shimshon Bichler. 2006. Cheap Wars. *Tikkun*, August, 9. http://bnarchives.yorku.ca/205/

11. Nitzan, Jonathan, and Shimshon Bichler. 2006. New Imperialism or New Capitalism? *Review* XXIX (1): 1-86. http://bnarchives.yorku.ca/203/

12. Bichler, Shimshon, and Jonathan Nitzan. 2004. Dominant Capital and the New Wars. *Journal of World-Systems Research* 10 (2, August): 255-327. http://bnarchives.yorku.ca/1/

13. Nitzan, Jonathan, and Shimshon Bichler. 2004. Clash of Civilization, or Capital Accumulation? *News From Within* XX (3, June-July): 4-6. http://bnarchives.yorku.ca/28/

14. Bichler, Shimshon, and Jonathan Nitzan. 2004. Differential Accumulation and Middle East Wars: Beyond Neo-Liberalism. In *Global Regulation. Managing Crises After the Imperial Turn*, edited by D. Wigan, L. Assassi and K. van der Pijl. London: Palgrave, pp. 43-60. http://bnarchives.yorku.ca/17/

15. Nitzan, Jonathan, and Shimshon Bichler. 2003. It's All About Oil. *News From Within* XIX (1, January): 8-11. http://bnarchives.yorku.ca/38/

16. Nitzan, Jonathan, and Shimshon Bichler. 2002. *The Global Political Economy of Israel.* London: Pluto Press. http://bnarchives.yorku.ca/8/

Figure 1
Mode of Power, Confidence, Ideology and Forward-Looking Capitalization

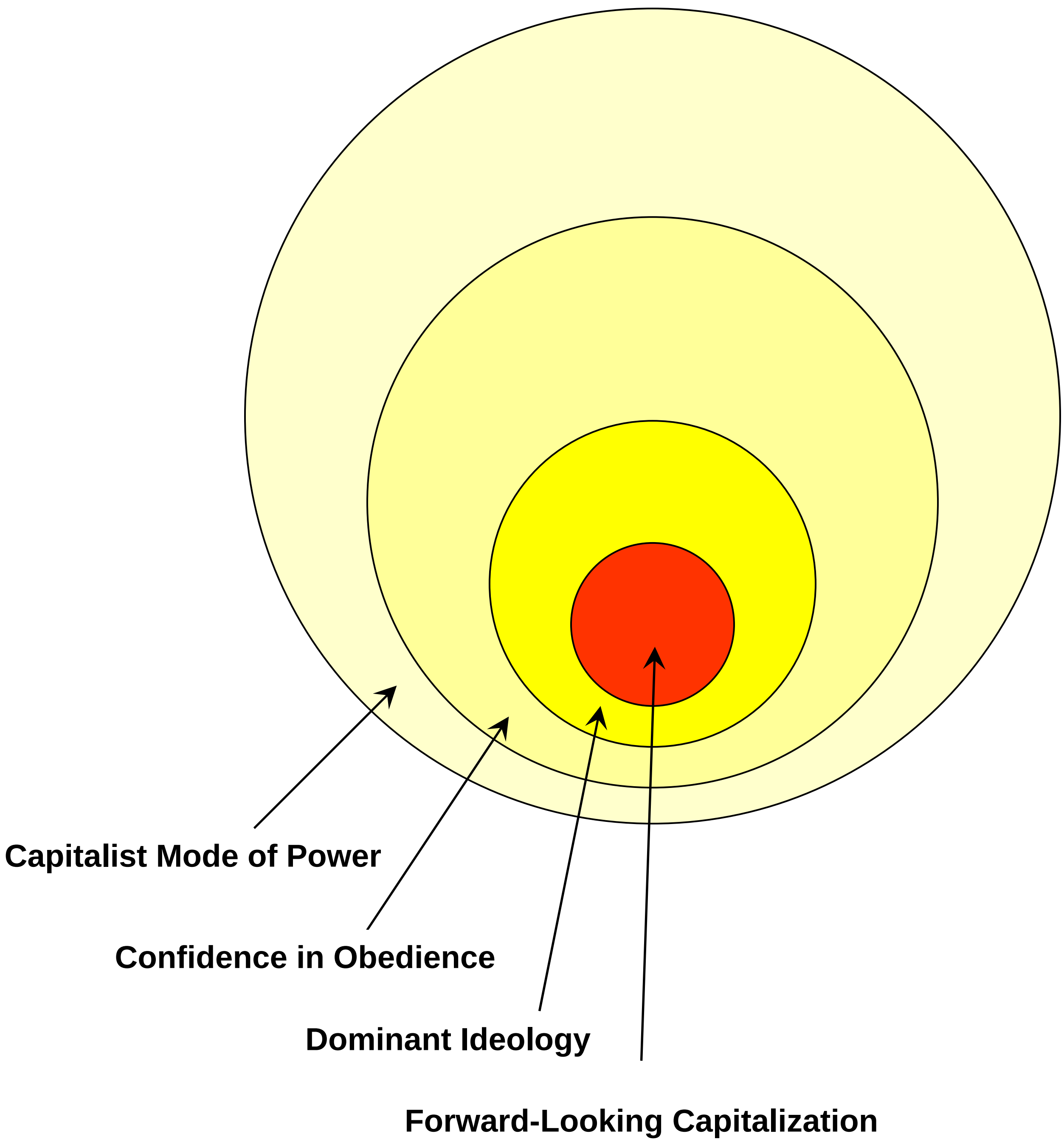
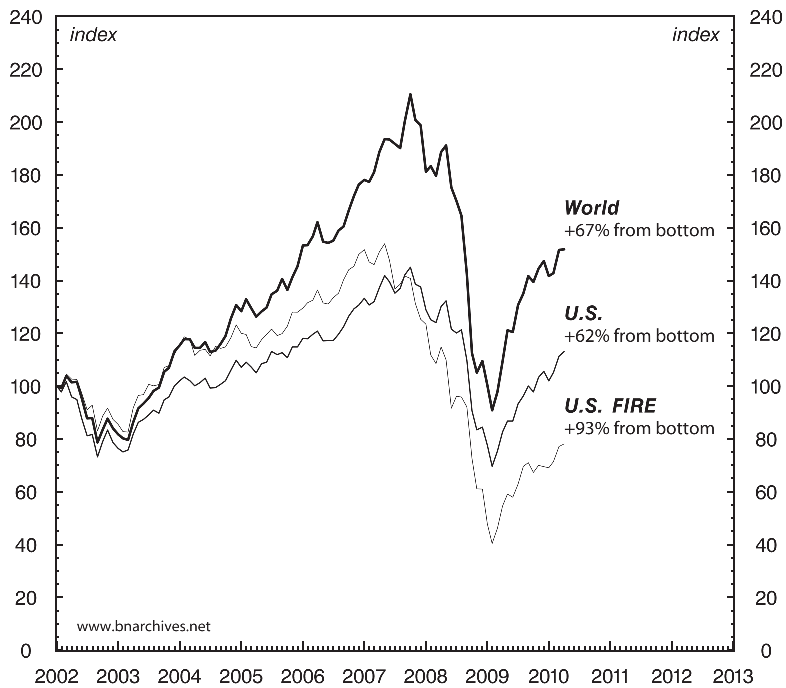


Figure 2
Stock Market Prices



NOTE: Indices denote month-end closing prices. They are expressed in $U.S. and rebased with January 2002=100. The last data points are for April 30, 2010.

SOURCE: Datastream (series codes: TOTMKWD(PI) for the world stock market index; TOTMKUS(PI) for the U.S. stock market index; FINANUS(PI) for the U.S. FIRE index).

Figure 3
Capitalization Formulae
Or why stock prices are delinked from past and present profit

1. $$\text{rate of return} = \frac{\text{expected future profit}}{\text{capitalization}} = \frac{\$100}{\$500} = 0.2$$

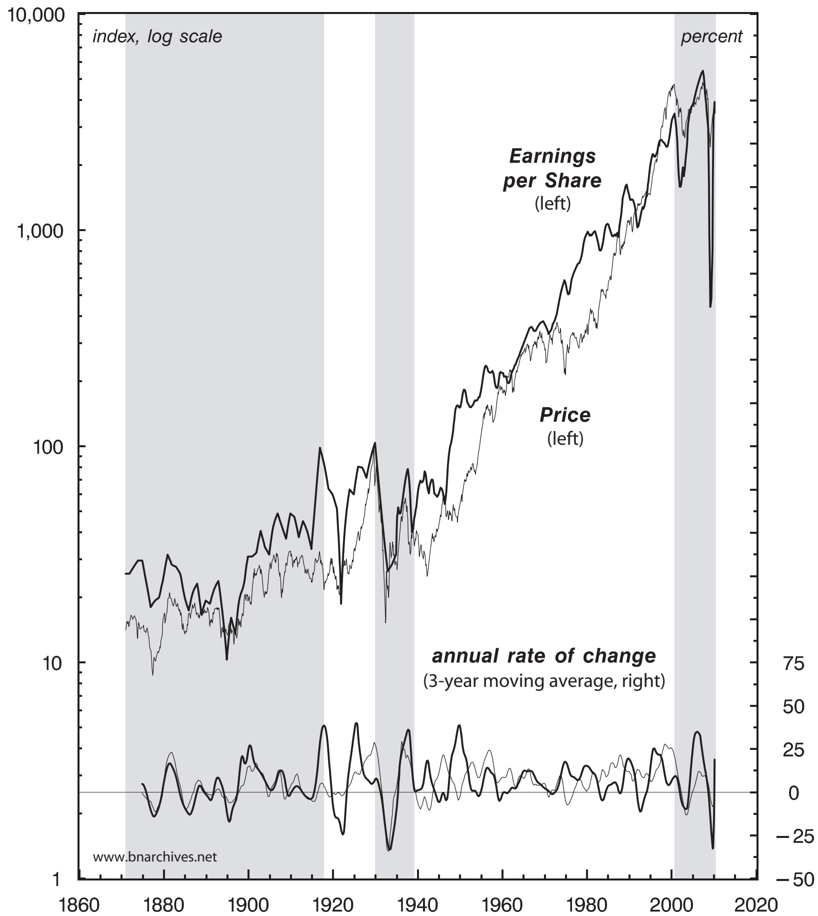
2. $$\text{capitalization} = \frac{\text{expected future profit}}{\text{rate of return}} = \frac{\$100}{0.2} = \$500$$

3. $$\text{capitalization} = \frac{\text{expected future profit}}{\text{normal rate of return} \times \text{risk}} = \frac{\$100}{0.1 \times 2} = \$500$$

4. $$\text{capitalization} = \frac{\text{future profit} \times \text{hype}}{\text{normal rate of return} \times \text{risk}} = \frac{\$50 \times 2}{0.1 \times 2} = \$500$$

Figure 4

S&P 500: Price and Earnings per Share, 1871-2010



NOTE: Earnings per share denote net profits per share earned in the previous twelve months. Monthly earnings are interpolated from annual data before 1926 and from quarterly data after 1926. Stock price data are monthly averages of daily closing prices. Both series are expressed in $U.S. and rebased with September 1929=100. The last data points are March 2010 for earnings per share and May 2010 for price.

SOURCE: Robert Shiller (http://www.econ.yale.edu/~shiller/data/ie_data.xls, retrieved on May 20, 2010).

Table 1

S&P 500: Pearson Correlation Coefficient between the Annual Rates of Growth of Price and Earnings per Share

(Monthly data expressed as 3-year moving Averages)

	Period	Correlation Coefficient
	Jan 1873 – Oct 1917	+ 0.72
	Oct 1917 – Mar 2010	+ 0.35
Sub periods	Oct 1917 – Dec 1929	+ 0.29
Sub periods	Dec 1929 – Feb 1939	+ 0.89
Sub periods	Feb 1939 – Sep 2000	– 0.15
Sub periods	Sep 2000 – Mar 2010	+ 0.64

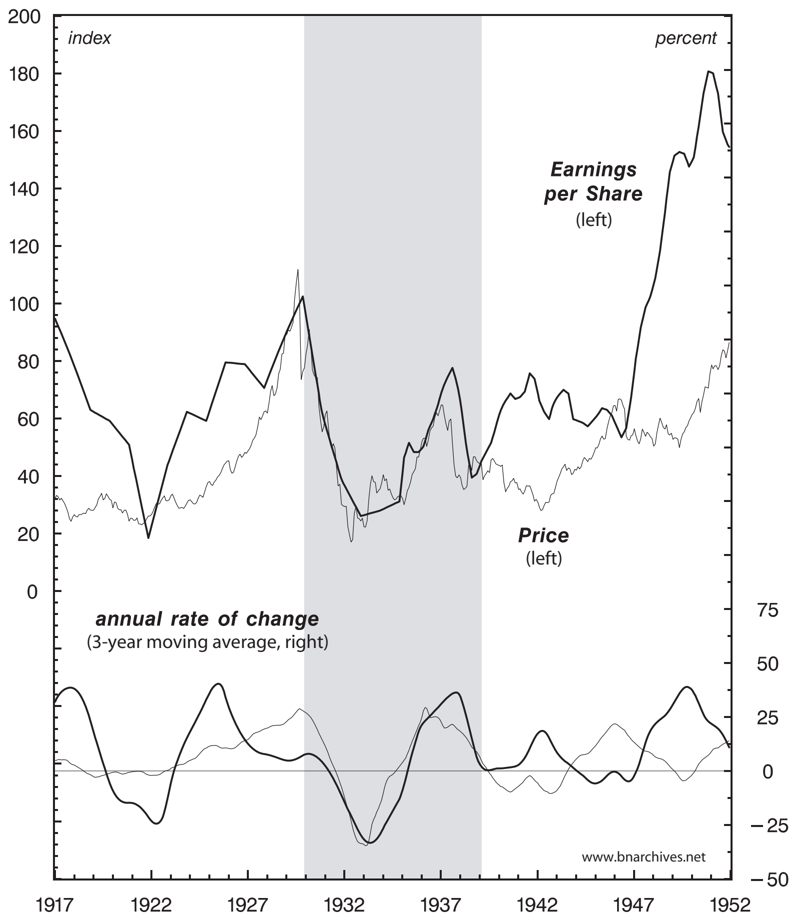
SOURCE: Figure 4.

The Bondsman's Fear of Death

"For this consciousness [of the capitalist bound to the steering wheel of a megamachine gone wild] was not in peril and fear for this element or that [such as falling profit or rising volatility], nor for this or that moment of time [like a sharp market correction or a declaration of war], it was afraid for its *entire being*; it felt the *fear of death*, the sovereign master [the ultimate wrath of the ruled]. It has been in that experience melted to its inmost soul, has trembled throughout its every fibre, and all that was fixed and steadfast has quaked within it [will capitalism survive?]".

Georg Wilhelm Friedrich Hegel, *The Phenomenology of Mind* (London and New York: George Allen & Unwin and Humanities Press, 1971), p. 237 (with square brackets added)

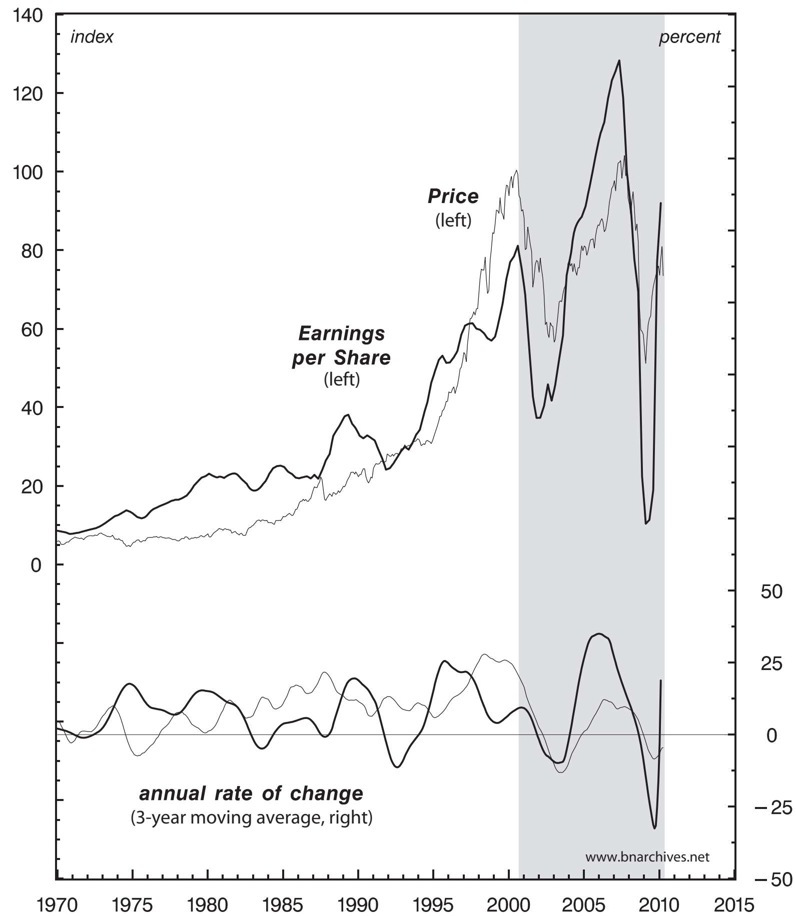
Figure 5
S&P 500: Price and Earnings per Share, 1917-1952



NOTE: Earnings per share denote net profits per share earned in the previous twelve months. Monthly earnings are interpolated from annual data before 1926 and from quarterly data after 1926. Stock price data are monthly averages of daily closing prices. Both series are expressed in $U.S. and rebased with September 1929=100.

SOURCE: Robert Shiller (see Figure 4).

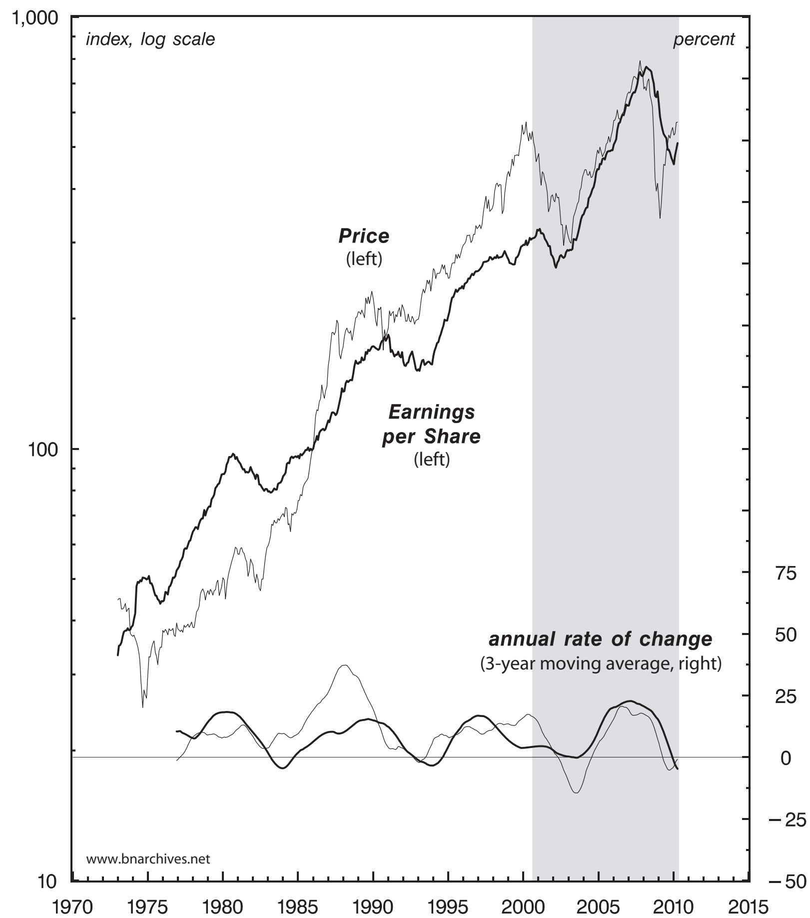
Figure 6
S&P 500: Price and Earnings per Share, 1970-2010



NOTE: Earnings per share denote net profits per share earned in the previous twelve months. Monthly earnings are interpolated from quarterly data. Stock price data are monthly averages of daily closing prices. Both series are expressed in $U.S. and rebased with December 2007=100. The last data points are March 2010 for earnings per share and May 2010 for price.

SOURCE: Robert Shiller (see Figure 4).

Figure 7
World Equities: Price and Earnings per Share, 1973-2010



NOTE: Indices denote month-end closing prices. They are expressed in $U.S. and rebased with January 1986=100. Earnings per share denote net profits per share earned in the previous twelve months The last data points are for April 30, 2010.

SOURCE: Datastream (series codes: TOTMKWD(PI) for the stock market index; TOTMKWD(PE) for earnings per share).

Is the Dominant Ideology Broken?

Former Fed Chairman Alan Greenspan (2008)
The whole intellectual edifice . . . collapsed in the summer of last year. . . . [T]hose of us who have looked to the self-interest of lending institutions to protect shareholder's equity (myself especially) are in a state of shocked disbelief. Such counterparty surveillance is a central pillar of our financial markets' state of balance. If it fails, as occurred this year, market stability is undermined.

Bernie Sucher of Merrill Lynch, quoted in *Financial Times* (March 2009)
Our world is broken – and I honestly don't know what is going to replace it.

Gillian Tett, *Financial Times* (March 2009)
[T]he pillars of faith on which this new financial capitalism were built have all but collapsed, [and that collapse] has left everyone from finance minister or central banker to small investor or pension holder bereft of an intellectual compass, dazed and confused.

Editors, *Financial Times* (May 2009)
Uncertainty is the only certain thing in this crisis. . . . [A] dense fog of confusion has . . . descended, obscuring where we are – falling fast, slowly, bumping along the bottom, or finally turning the corner. . . . Are these downward blips in a gathering recovery or signs of a return to freefall? The answer is: no one knows. Mervyn King, Bank of England governor, is forthright: "Judging the balance of influences on the economy at the moment is extraordinarily difficult". . . . Economies are behaving unpredictably and will continue to do so. The instability is both cause and consequence of the great uncertainty that has been spreading out from the financial markets. Fearful and confused, people react erratically to changing news, reinforcing confused market behaviour. It doesn't help that our economic theories were constructed for a different world. Most models depict economies close to equilibrium. . . . And unlike what most models assume, prices are not properly clearing all markets. . . .

Gillian Tett, *Financial Times* (April 2010)
Three years ago, it seemed inconceivable that a country such as Greece would be allowed to default, or exit the eurozone. But back then it seemed equally hard to imagine that Lehman Brothers might fail. Now that Lehman has gone, who knows what the worst-case scenario might be? Could the eurozone break up? Could Greece default? What might happen to other debt-laden nations, such as the US, if the worst case scenario occurred? The one thing that is clear is that the answers to those questions now depend as much on culture and politics as on macro-economics. . . . In this new world of sovereign risk, what really matters is a set of issues that cannot be plugged into a spreadsheet. The old compass no longer works.