
Can Capitalists Afford Recovery?

Shimshon Bichler & Jonathan Nitzan

CHART BOOK

To accompany a presentation by Jonathan Nitzan
London School of Economics, May 27, 2014

Sponsored by the LSE Department of International Relations
and the Project on Capital as Power

Event page: <http://bnarchives.yorku.ca/398/>

LSE page: <http://tinyurl.com/lpxc8hf>

The Bichler & Nitzan Archives: <http://bnarchives.net>

The Project on Capital as Power: <http://capitalaspower.com>

Shimshon Bichler, Jerusalem: tookie@barak.net.il

Jonathan Nitzan, Political Science, York University: nitzan@yorku.ca

Recent Publications, Presentations and Interviews

1. Nitzan, Jonathan, and Shimshon Bichler. 2014. The Capitalist Algorithm. Reflections on Robert Harris' *The Fear Index*. *Real World Economic Review*, (67, May): 137-142. <http://bnarchives.yorku.ca/401/>
2. Bichler, Shimshon, and Jonathan Nitzan. 2014. The Enlightened Capitalist. *Philosophers for Change*, May 6. <http://bnarchives.yorku.ca/399/>
3. Nitzan, Jonathan, and Shimshon Bichler. 2014. Profit from Crisis: Why Capitalists Do Not Want Recovery, and What that Means for America. *Frontline*, May 2. (published online on April 16) <http://bnarchives.yorku.ca/395/>
4. Bichler, Shimshon, and Jonathan Nitzan. 2014. No Way Out: Crime, Punishment and the Limits to Power. *Crime, Law and Social Change*. 61 (3, April): 251-271 (published in Online First in January 3, 2014). <http://bnarchives.yorku.ca/346/>
5. Bichler, Shimshon, and Jonathan Nitzan. 2014. How Capitalists Learned to Stop Worrying and Love the Crisis. *Real-World Economics Review* (66, January): 65-73. <http://bnarchives.yorku.ca/390/>
6. Bichler, Shimshon, and Jonathan Nitzan. 2013. Can Capitalist Afford Recover? Economic Policy When Capital is Power. *Working Papers on Capital as Power* (2013/01, October): 1-36. <http://bnarchives.yorku.ca/379/>
7. Bichler, Shimshon, Jonathan Nitzan, and Piotr Dutkiewicz. 2013. Capitalism as a Mode of Power: Piotr Dutkiewicz in Conversation with Shimshon Bichler and Jonathan Nitzan. In *22 Ideas to Fix the World: Conversations with the World's Foremost Thinkers*, edited by P. Dutkiewicz and R. Sakwa. New York: New York University Press and the Social Science and Research Council, pp. 326-354. <http://bnarchives.yorku.ca/372/>
8. Bichler, Shimshon, and Jonathan Nitzan. 2012. Capital as Power: Toward a New Cosmology of Capitalism. *Real-World Economics Review* (61, September): 65-104. <http://bnarchives.yorku.ca/343/>
9. Bichler, Shimshon, Jonathan Nitzan, and Tim Di Muzio. 2012. The 1%, Exploitation and Wealth: Tim Di Muzio interviews Shimshon Bichler and Jonathan Nitzan. *Review of Capital as Power* 1 (1): 1-22. <http://bnarchives.yorku.ca/342/>
10. Bichler, Shimshon, and Jonathan Nitzan. 2012. The Asymptotes of Power. *Real-World Economic Review* (60, June): 18-53. <http://bnarchives.yorku.ca/336/>
11. Soong, C.S. 2012. A Two-Part Radio Interview with Jonathan Nitzan on 'Capital as Power'. In *Against The Grain*. Berkeley: KPFA 94.1 FM, June 11 and 14 (1:24 hours) <http://bnarchives.yorku.ca/335/>
12. Bichler, Shimshon, and Jonathan Nitzan. 2012. Imperialism and Financialism: A Story of a Nexus. *Journal of Critical Globalization Studies* (5): 42-78. <http://bnarchives.yorku.ca/329/>
13. Bichler, Shimshon, and Jonathan Nitzan. 2011. Kliman on Systemic Fear: A Rejoinder. Special Issue: The Idea of Crisis. *Journal of Critical Globalization Studies* (4): 93-118. <http://bnarchives.yorku.ca/314/>
14. 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/>
15. 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/>

Systemic Fear

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.

Alan Greenspan quoted in Edmund L. Andrews, Greenspan Concedes Error on Regulation, *New York Times*, October 23, 2008, pp. 1.
Testimony of Dr. Alan Greenspan, the Committee of Government Oversight and Reform, October 23, 2008

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. . . . 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. . . .

Sound and Fury in the World Economy, Editorial,
Financial Times, May 16, 2009, pp. 6

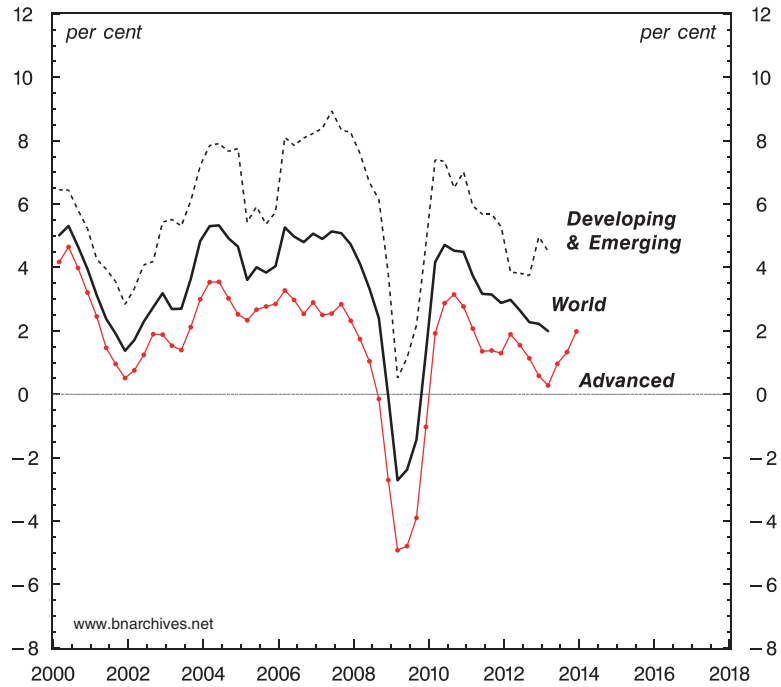
[T]he pillars of faith on which this new financial capitalism were built have all but collapsed, and that collapse has left everyone from finance minister or central banker to small investor or pension holder **bereft of an intellectual compass, dazed and confused.**

Gillian Tett, Lost Through Destructive Creation, FT Series:
Future of Capitalism, *Financial Times*, March 10, 2009, pp. 9.

[Some] of the leading figures in central banking conceded they were **flying blind when steering their economies**. Lorenzo Bini Smaghi, the former member of the European Central Bank's executive board, captured the mood at the IMF's spring meeting, saying: 'We don't fully understand what is happening in advanced economies'. In this environment of uncertainty about the way economies work and how to influence recoveries with policy, Sir Mervyn King, the outgoing governor of the Bank of England, said that 'there is the risk of appearing to promise too much or allowing too much to be expected of us'. . . . The central bankers were clear that they had got it wrong before the crisis, allowing themselves to be lulled, by stable inflation, into thinking they had eliminated financial vulnerabilities. . . . The question now was whether central bankers are making the same mistake in their efforts to secure a recovery. Might they be storing up financial distortions that will bite in the future? . . . 'Put simply, **we are in uncharted territory**', said [vice chairman of the Federal Reserve] Mr Viñals. . . . The problem outlined by Sir Mervyn was that the uncertainty is so pervasive that no one can be sure that the expansionary monetary policy is appropriate in a world where nations are learning they are poorer than they expected, but are not sure by how much. How can we be sure 'we really are [not] running the risk of reigniting the problems that led to the financial crisis in the first place?' Mr Bean asked the IMF panel.

Chris Giles, Central Bankers Say They Are Flying Blind, *Financial Times*, April 17, 2013

Figure 1
Annual GDP Growth
2000-2013



NOTE: Series show quarterly data, measuring the year-on-year growth rates of GDP 'volumes'. The last data points are 2013:Q1 for the developing & emerging countries and for the world as a whole, and 2013:Q4 for the advanced countries.

SOURCE: IMF *International Financial Statistics* through Global Insight (series codes: L99BP&X@C001 for world GDP growth, L99BP&X@C110 for GDP growth of the advanced countries, and L99BP&X@C200 for GDP growth of the developing & emerging countries).

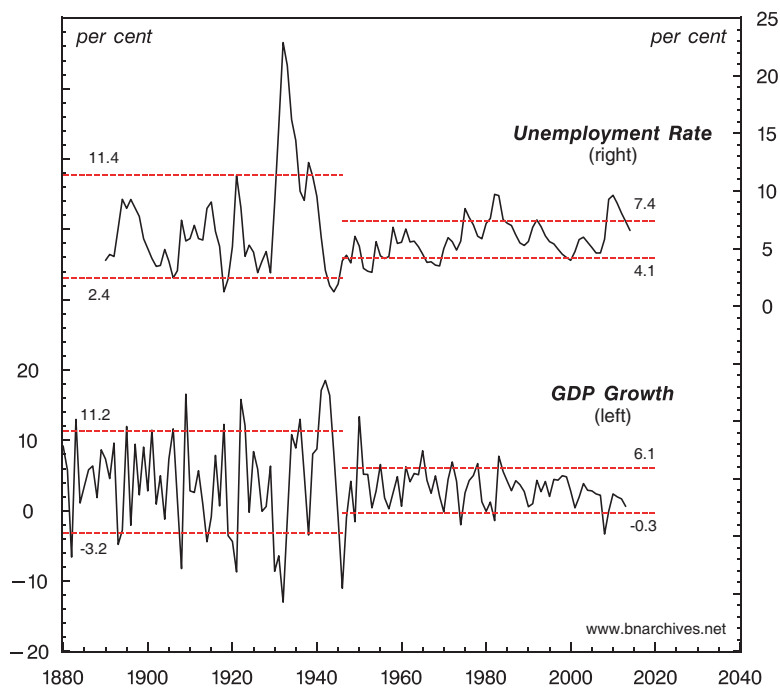
Decomposing GDP

1. *nominal GDP = real GDP × nominal GDP deflator*

or,

$$Y = Q \times P$$

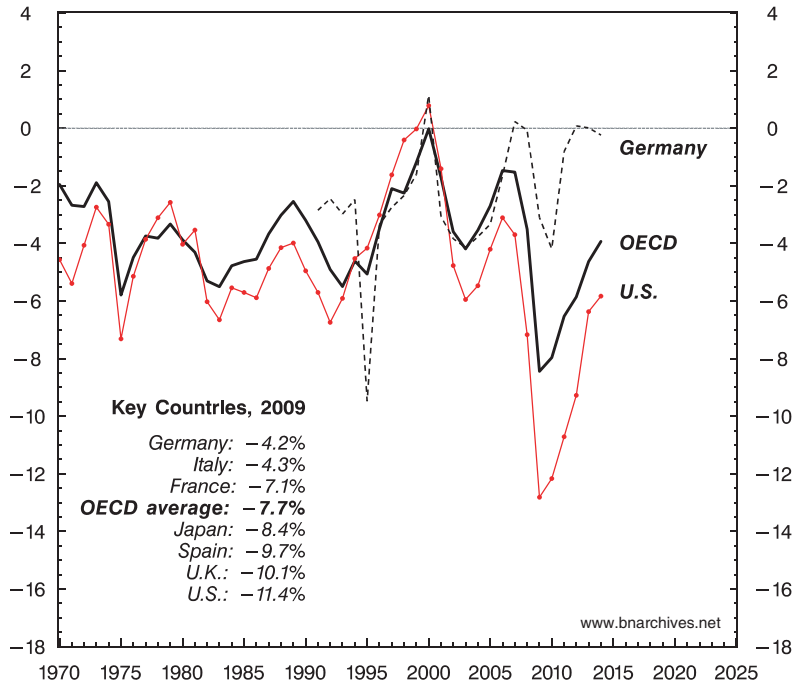
Figure 2
U.S. Unemployment and GDP Growth



NOTE: GDP growth is the annual rate of change of GDP in constant prices. Unemployment is expressed as a share of the labour force. The last data points are 2013 for GDP growth and 2014 for the unemployment rate.

SOURCE: Global Financial Data (series codes: GDPCUSA_Close for GDP in constant prices); *Historical Statistics of the United States, Earliest Times to the Present: Millennial Edition* (online) (series code: Unemployed_AsPercentageOf_CivilianLaborForce_Ba475_Percent for the unemployment rate [till 1947]); U.S. Bureau of Labor Statistics through Global Insight (series code: RUC for the unemployment rate, computed as annual averages of monthly data [1948 onward]).

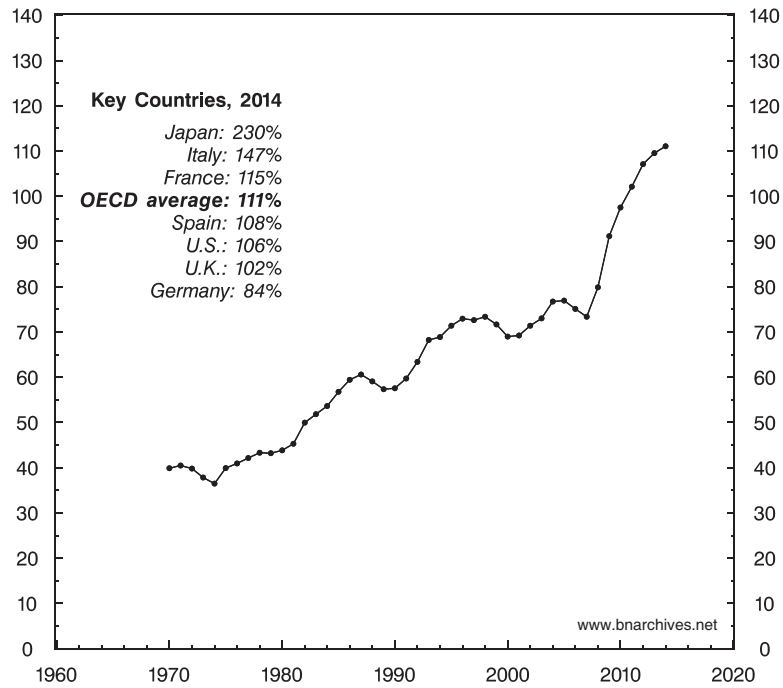
Figure 3
Government Budget Balance in the OECD (% of GDP)
1970-2014



NOTE: Series show annual data. The government budget balance is defined as government net lending. Positive/negative numbers indicate surplus/deficit, respectively. The last data points are for 2014.

SOURCE: OECD StatExtracts (series codes: NLGQ for government net lending as a per cent of nominal GDP).

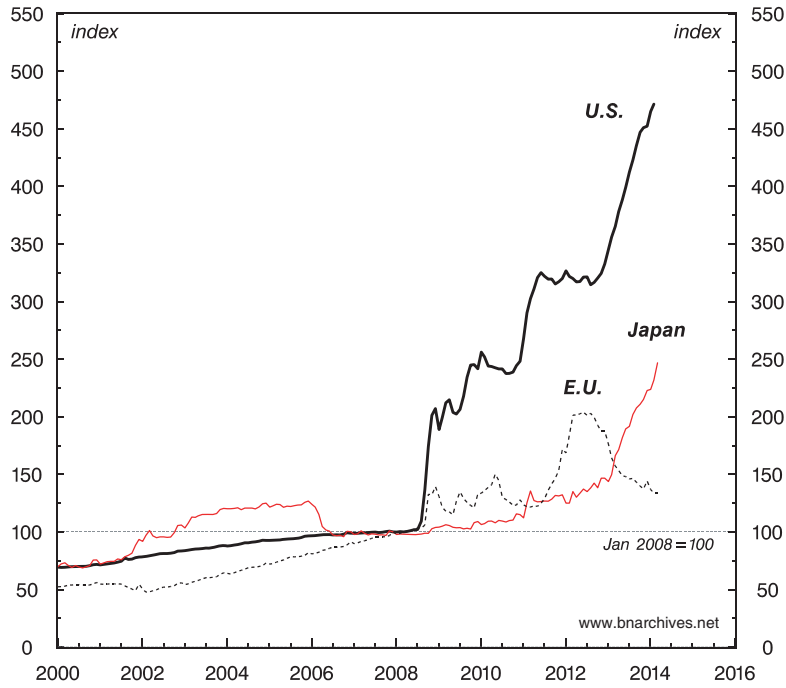
Figure 4
Government Debt in the OECD (% of GDP)
1969-2014



NOTE: Series show annual data. Government debt comprises government gross financial liabilities. The last data point is for 2014.

SOURCE: OECD StatExtracts (series code: GGFLQ for general government gross financial liabilities as a percentage of GDP).

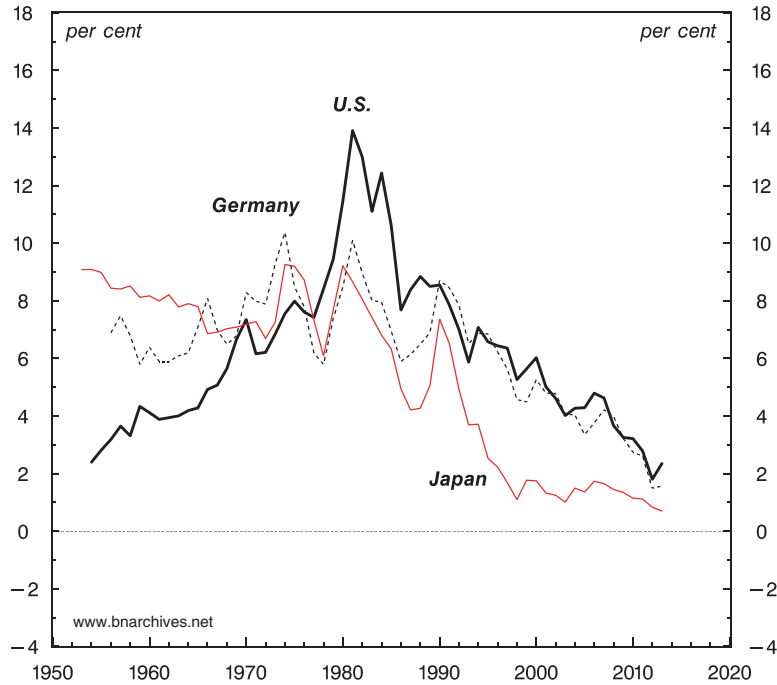
Figure 5
The Monetary Base
2000-2014



NOTE: Series show monthly data. Original data are in local currencies, rebased to January 2008=100.0. The last data points are March 2014 for the U.S. and April 2014 for the EU and Japan.

SOURCE: IMF *International Financial Statistics* through Global Insight (series codes: L19MA@C111 for the U.S. monetary base; Bank of Japan through Global Insight (series code: JPNVM0001 for Japan's monetary base); European Central Bank (series code: ILM.M.U2.C.LT01.Z5.EUR for Euro area base money, changing composition).

Figure 6
Long-Term Government Bond Yields
1953-2013



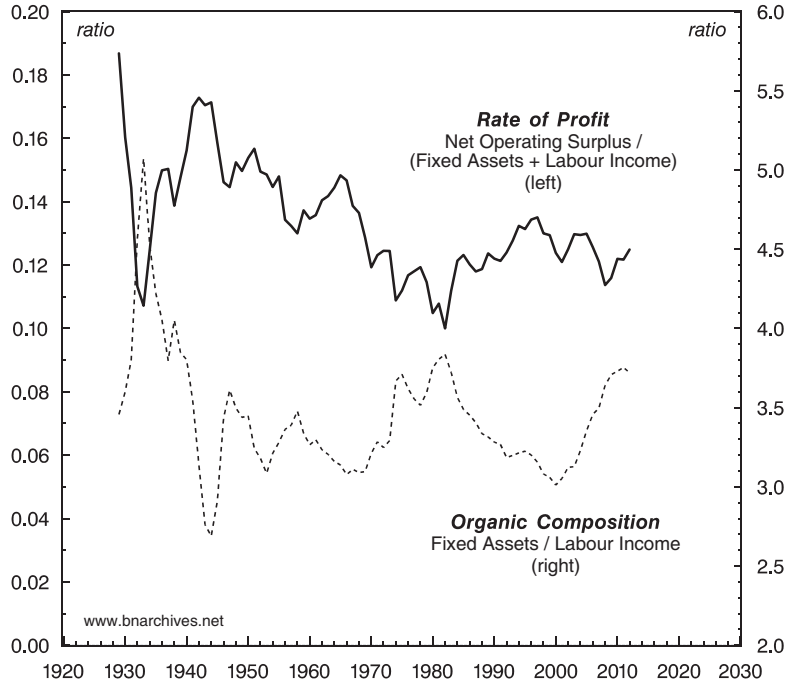
NOTE: Series show annual data. For Japan, data prior to 1966 are measured by the prime lending rate. The last data points are for 2013.

SOURCE: IMF *International Financial Statistics* through Global Insight (L60P@C158 for Japan's prime lending rate, L61@C158 for Japan's government bond yield, L61@C111 for U.S. government bond yield and L61@C134 for Germany's government bond yield).

Basic Marxist Accounting

1. $c = \text{constant capital}$
2. $v = \text{variable capital}$
3. $s = \text{surplus value}$
4. $\theta = \frac{c}{v} = \text{organic composition of capital}$
5. $\xi = \frac{s}{v} = \text{rate of surplus value}$
6. $\pi = \frac{s}{c+v} = \text{rate of profit}$
7. $\pi = \frac{s}{c+v} = \frac{s/v}{c/v+1} = \frac{\xi}{\theta+1} = \frac{\text{rate of surplus value}}{\text{organic composition} + 1}$

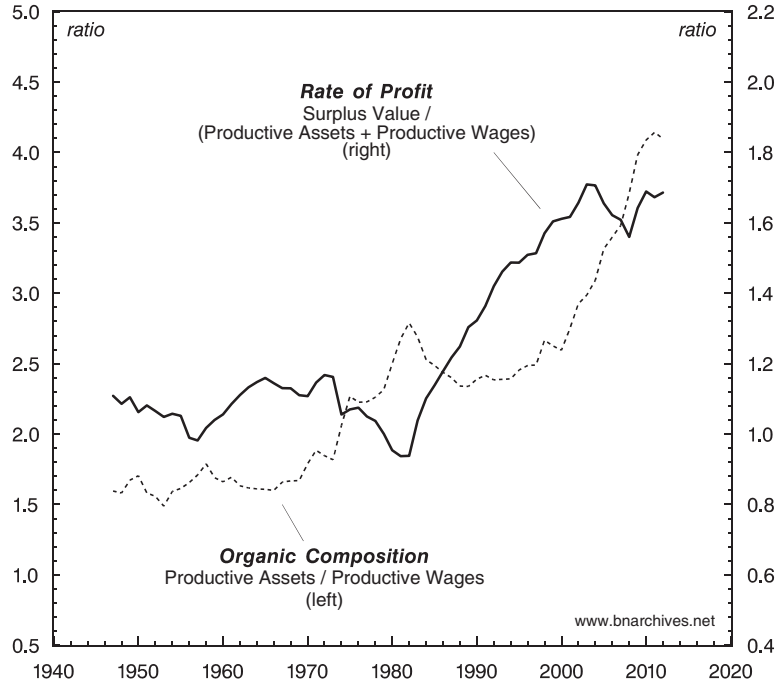
Figure 7
**Naïve Marxist Proxies for the U.S. Rate of Profit
 and Organic Composition of Capital
 1929-2012**



NOTE: Fixed Assets is the replacement cost of private and governmental net non-residential fixed assets. Labour income is domestic compensation of employees. Net operating surplus is net domestic product less labour income. The last data points are for 2012.

SOURCE: U.S. Bureau of Economic Analysis through Global Insight (series codes: FAPAGNRE for net fixed assets; NDP for net domestic product; YDCOMP for domestic compensation of employees).

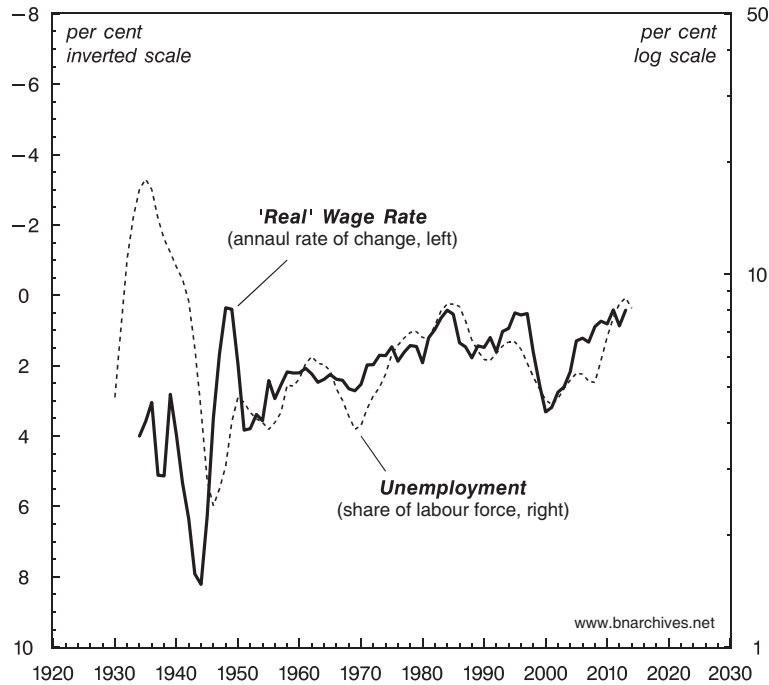
Figure 8
**Refined Marxist Proxies for the U.S. Rate of Profit
 and Organic Composition of Capital
 1947-2012**



NOTE: Productive assets are estimated by the replacement cost of net fixed assets in agriculture, construction, mining and manufacturing. Productive wages are estimated by compensation of employees in agriculture, construction, mining and manufacturing. Surplus value is estimated by net domestic product less productive wages. The last data points are for 2012.

SOURCE: U.S. Bureau of Economic Analysis through Global Insight (series codes: FAPNRM11, FAPNRM21, FAPCON and FAPM, for net fixed assets in agriculture, mining, construction and manufacturing, respectively; COMPDPNRM11, COMPDPNRM21, COMPDPCON and COMPDPM for compensation of employees in agriculture, mining, construction and manufacturing, respectively; NDP for net domestic product).

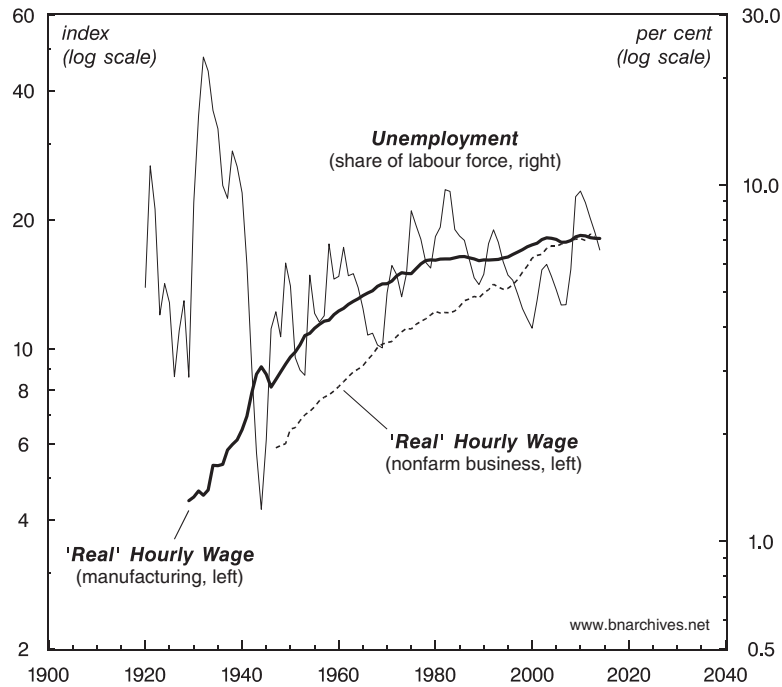
Figure 9
**U.S. Unemployment and 'Real' Wage Growth
 1930-2014**



NOTE: Series are shown as 5-year moving averages. The 'real' wage rate is the nominal hourly wage rate divided by the implicit GDP deflator. The rate of change of the 'real' wage concatenates the rates of change for production workers in manufacturing until 1952 and for workers in the nonfarm business sector afterwards. The last data points are 2013 for the 'real' wage rate and 2014 for unemployment.

SOURCE: U.S. Bureau of Economic Analysis through Global Insight (series codes: PDIGDP for the implicit GDP deflator); *Historical Statistics of the United States, Earliest Times to the Present: Millennial Edition* (online) (series code: AllManufacturing_Hourly_Ba4361_Dollars for hourly wages of production workers in manufacturing [till 1938]); U.S. Bureau of Economic Analysis through Global Insight (series codes: AHPMFNS for hourly wages of production workers in manufacturing, computed as annual averages of monthly data [from 1939 onward]; JRWSSNFE for hourly compensation of employees in the nonfarm business sector, computed as annual averages of quarterly data [from 1947 onward]); *Historical Statistics of the United States, Earliest Times to the Present: Millennial Edition* (online) (series code: Unemployed_AsPercentageOf_CivilianLaborForce_Ba475_Percent for the unemployment rate [till 1947]); U.S. Bureau of Labor Statistics through Global Insight (series code: RUC for the unemployment rate, computed as annual averages of monthly data [1948 onward]).

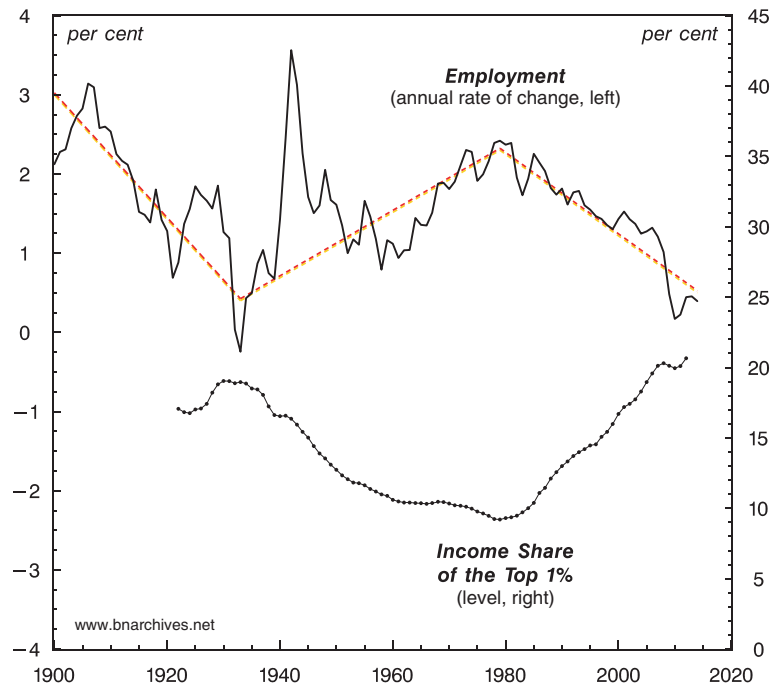
Figure 10
**U.S. Unemployment and the 'Real' Wage Rate
 1920-2013**



NOTE: The 'real' hourly wage is the nominal hourly wage rate divided by the implicit GDP deflator and expressed as an index. The last data points are 2013 for 'real' hourly wage (nonfarm business) and 2014 for 'real' hourly wage (manufacturing) and unemployment.

SOURCE: U.S. Bureau of Economic Analysis through Global Insight (series codes: PDIGDP for the implicit GDP deflator); *Historical Statistics of the United States, Earliest Times to the Present: Millennial Edition* (online) (series code: AllManufacturing_Hourly_Ba4361_Dollars for hourly wages of production workers in manufacturing [till 1938]); U.S. Bureau of Economic Analysis through Global Insight (series codes: AHPMFNS for hourly wages of production workers in manufacturing, computed as annual averages of monthly data [from 1939 onward]; JRWSSNFE for hourly compensation of employees in the nonfarm business sector, computed as annual averages of quarterly data [from 1947 onward]); *Historical Statistics of the United States, Earliest Times to the Present: Millennial Edition* (online) (series code: Unemployed_AsPercentageOf_CivilianLaborForce_Ba475_Percent for the unemployment rate [till 1947]); U.S. Bureau of Labor Statistics through Global Insight (series code: RUC for the unemployment rate, computed as annual averages of monthly data [1948 onward]).

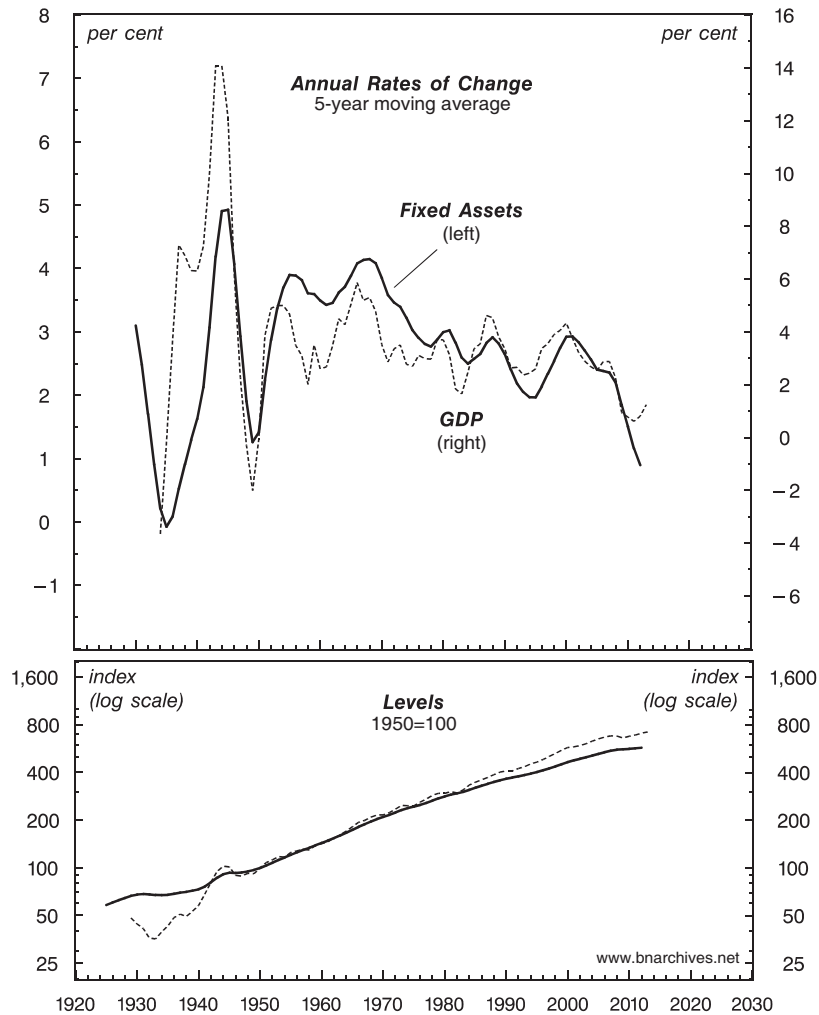
Figure 11
**U.S. Income Distribution and Employment Growth
 1900-2014**



NOTE: Series show annual data smoothed as 10-year moving averages. The trend dashed lines going through the employment growth series are drawn freehand. The income share of the top 1% is inclusive of capital gains. The last data points are 2012 for the income share of the top 1% and 2014 for employment growth.

SOURCE: *Historical Statistics of the United States, Earliest Times to the Present: Millennial Edition* (online) (series code: CivilianLaborForce_Employed_Total_Ba471_Thousand for employment [till 1947]); U.S. Bureau of Labor Statistics through Global Insight (series code: ENS for employment, computed as annual averages of monthly data [1948 onward]); *The World Top Incomes Database* at <http://topincomes.gmond.parisschoolofeconomics.eu/> for the income share of the top 1%.

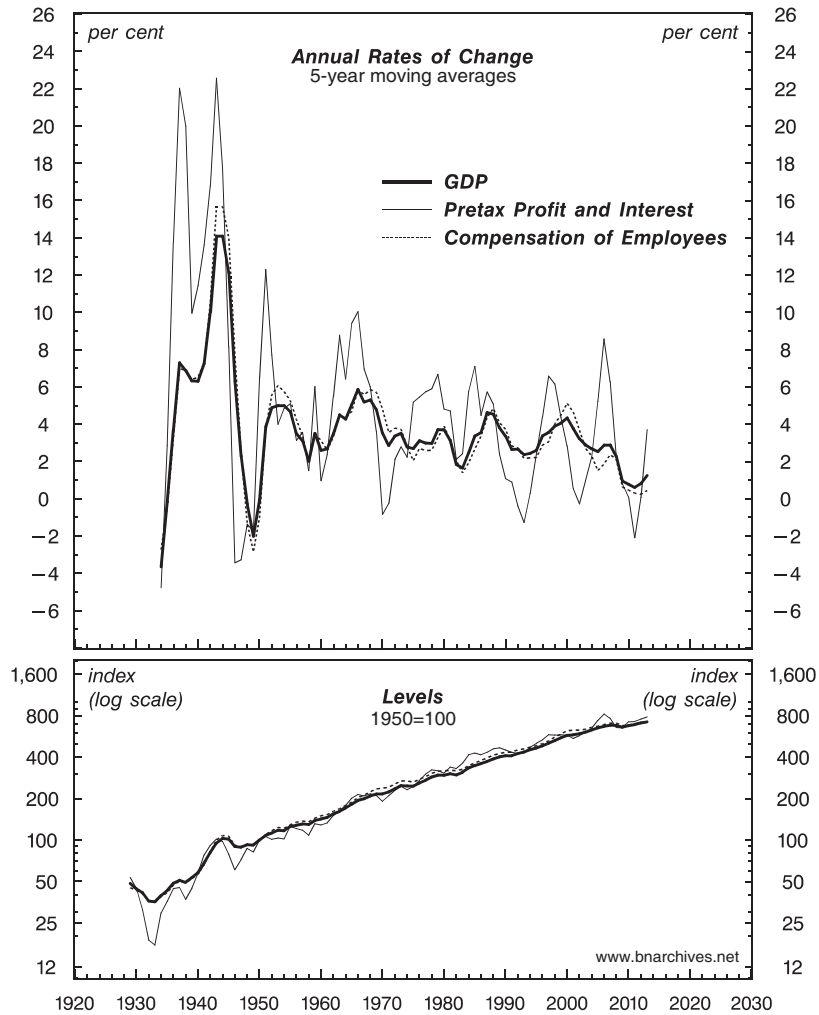
Figure 12
 'Real' Accumulation and Economic Growth
 1925-2013



NOTE: Fixed assets are chain-type quantity indices of the net stock of private and government residential and non-residential assets (excluding consumer durables). GDP is a chain-type quantity index. The last data points are 2012 for fixed assets and 2013 for GDP.

SOURCE: U.S. Bureau of Economic Analysis through Global Insight (series codes: JQFA for fixed assets and JQGDPR for GDP).

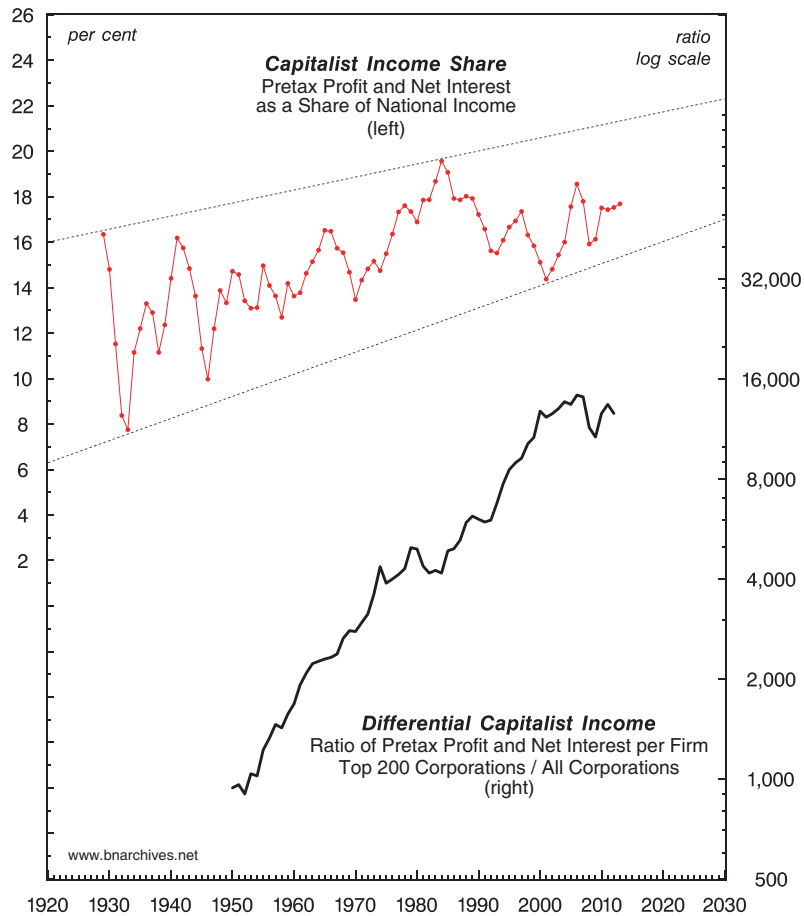
Figure 13
 'Real' GDP, Capitalist Income and Labour Income
 1929-2013



NOTE: 'Real' GDP is a chain-type quantity index. Pretax profit and interest and compensation of employees exclude income from the rest of the world. 'Real' measures are derived by dividing the nominal series by the implicit price deflator. The last data points are for 2013.

SOURCE: U.S. Bureau of Economic Analysis through Global Insight (series codes: JQGDPR for GDP; ZBECOND for domestic pretax profit; INTNETDBUS for domestic interest payments; YDCOMP for domestic compensation of employees; PDIGDP for the implicit GDP deflator).

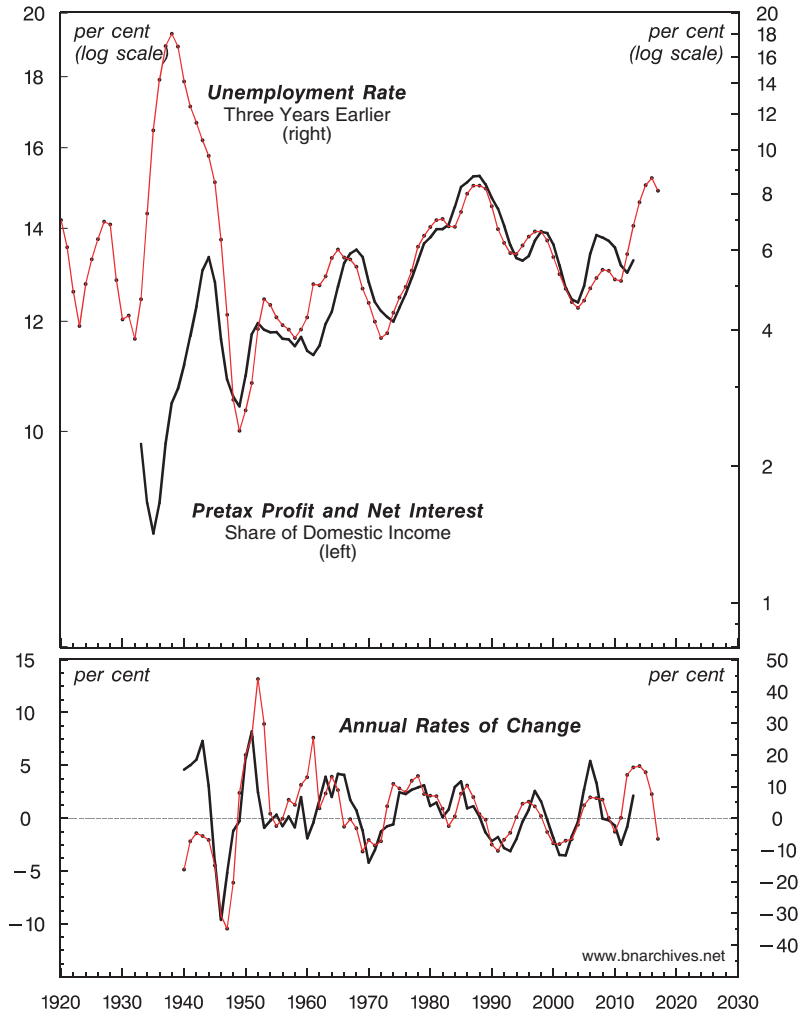
Figure 14
**Capitalist Income Share and Differential Capitalist Income
 1929-2013**



NOTE: Aggregate profit is pretax and includes capital consumption adjustment (CCAdj) and inventory valuation adjustment (IVA). Capitalist income for the top 200 firms, ranked by market value, is estimated by EBIT (earnings before interest and taxes). The top 200 firms are selected from U.S.-incorporated firms in Compustat's North American dataset (excluding firms with no assets, those reporting no EBIT, and duplicates). Differential capitalist income is the average EBIT for a top-200 corporation divided by the average pretax profit and net interest per corporation. The last data points are for 2012 for differential capitalist income and 2013 for the capitalist income share.

SOURCE: U.S. Bureau of Economic Analysis through Global Insight (series codes: ZBECON for domestic pre-tax profit with CCAdj & IVA; INTNETAMISC for net interest; YN for national income); The number of active corporations is from *Historical Statistics of the United States, Earliest Times to the Present: Millennial Edition* (online) (series codes: Ch13, till 1997); U.S. Department of Commerce, *Statistical Abstract of the United States 2012* (Table 744, p. 491, for 1998-2008) and the IRS (for 2009-2010). The numbers for 2011-12 are extrapolated using the average growth rate for 2001-2010 (1.4%). Compustat 'funda' file through WRDS (series codes for Compustat companies: EBIT for earnings before income and taxes; CSHO for number of outstanding shares; PRCC_C for closing share price).

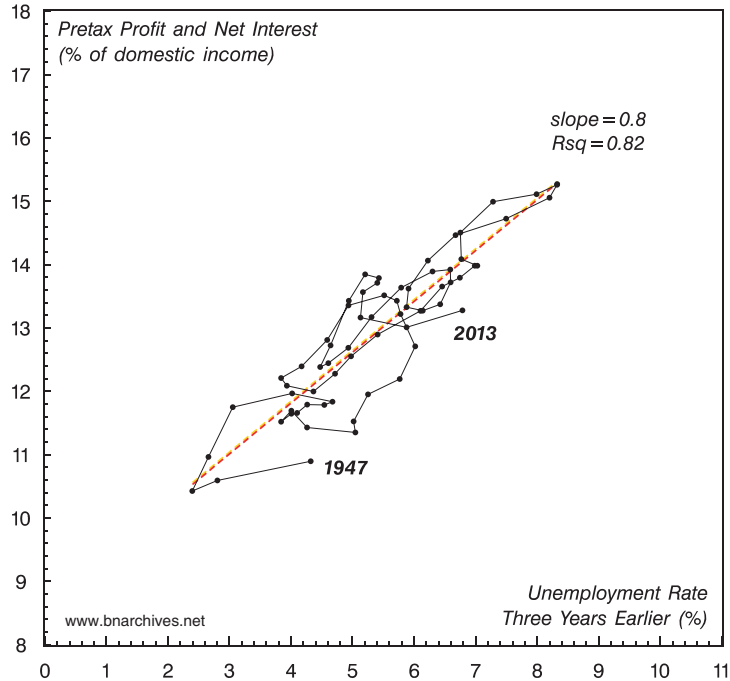
Figure 15
**U.S. Unemployment and the
 Domestic Income Share of Capital
 1920-2014**



NOTE: Series show annual data smoothed as 5-year moving averages. Profit is pre-tax and includes capital consumption adjustment (Cad) and inventory valuation adjustment (IVA). Unemployment is expressed as a share of the labour force. The last data points are 2013 for profit and interest and 2014 for unemployment.

SOURCE: U.S. Bureau of Economic Analysis through Global Insight (series codes: GDY for domestic income; ZBECOND for domestic pre-tax profit with CCA_{adj} & IVA; INTNETDBUS for domestic net interest); *Historical Statistics of the United States, Earliest Times to the Present: Millennial Edition* (online) (series code: Unemployed_AsPercentageOf_CivilianLaborForce_Ba475_Percent for the unemployment rate [till 1947]); U.S. Bureau of Labor Statistics through Global Insight (series code: RUC for the unemployment rate, computed as annual averages of monthly data [1948 onward]).

Figure 16
**U.S. Unemployment and the
 Domestic Income Share of Capital
 1947-2013**



NOTE: Series show annual data smoothed as 5-year moving averages. Profit is pre-tax and includes capital consumption adjustment (CCAdj) and inventory valuation adjustment (IVA). Unemployment is expressed as a share of the labour force. The last data points are for 2013.

SOURCE: U.S. Bureau of Economic Analysis through Global Insight (series codes: GDY for domestic income; ZBECOND for domestic pre-tax profit with CCAdj & IVA; INTNETDBUS for domestic net interest); *Historical Statistics of the United States, Earliest Times to the Present: Millennial Edition* (online) (series code: Unemployed_AsPercentageOf_CivilianLaborForce_Ba475_Percent for the unemployment rate [till 1947]); U.S. Bureau of Labor Statistics through Global Insight (series code: RUC for the unemployment rate, computed as annual averages of monthly data [1948 onward]).