

Can Capitalists Afford Recovery? A 2018 Update

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Jerusalem and Montreal, October 2018



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In our work, we've argued that, contrary to the conventional creed, capitalists dislike recovery. Their main driving force, we've claimed, is not the *absolute* level of their income, but its *distributive share*, and this later emphasis has far-reaching implication. Whereas the absolute level of capitalist income correlates with the absolute level of economic activity, the distributive share of that income depends on capitalist power. And in the United States – and this is the key point here – the power of capitalists relative to the underlying population depends crucially on the sabotage inflicted by unemployment. Since unemployment is inversely related to growth, it follows that capitalists cannot really afford recovery, particularly a prolonged one.

This claim is illustrated by the left figure, taken from our paper 'Can Capitalists Afford Recovery' (Bichler and Nitzan 2013; Nitzan and Bichler 2014a). The chart shows the overall share of capital in domestic income along with the rate of unemployment. The top panel displays the levels of the two variables, both smoothed as 5-year moving averages. The solid line, plotted against the left log scale, shows pretax profit and net interest as a percent of domestic income. The dotted line, plotted against the right log scale, shows the rate of unemployment three years earlier. The bottom panel shows the annual rates of change of the two top variables since 1940.

A Leading Indicator

The data show unemployment to be a highly reliable leading indicator for the capitalist share of domestic income, for both levels and rates of change. In general, the higher the level (or rate of change) of unemployment, the greater the share of capital in domestic income (or its rate of change), and vice versa.

Based on this long-term relationship, we wrote in 2014 that, 'Looking forward, capitalists have reason to remain crisis-happy: with the rate of unemployment again approaching post-war highs, their income share has more room to rise in the years ahead' (Nitzan and Bichler 2014b).

And that is indeed what happened. According to the up-to-date figure on the right, in 2013, the share of capital in domestic income started to rise (top panel) while its growth rate accelerated (bottom panel). But the ascent didn't last long. Unemployment had peaked, and as it started its prolonged decline, the capitalist income share as well as its rate of change headed south.

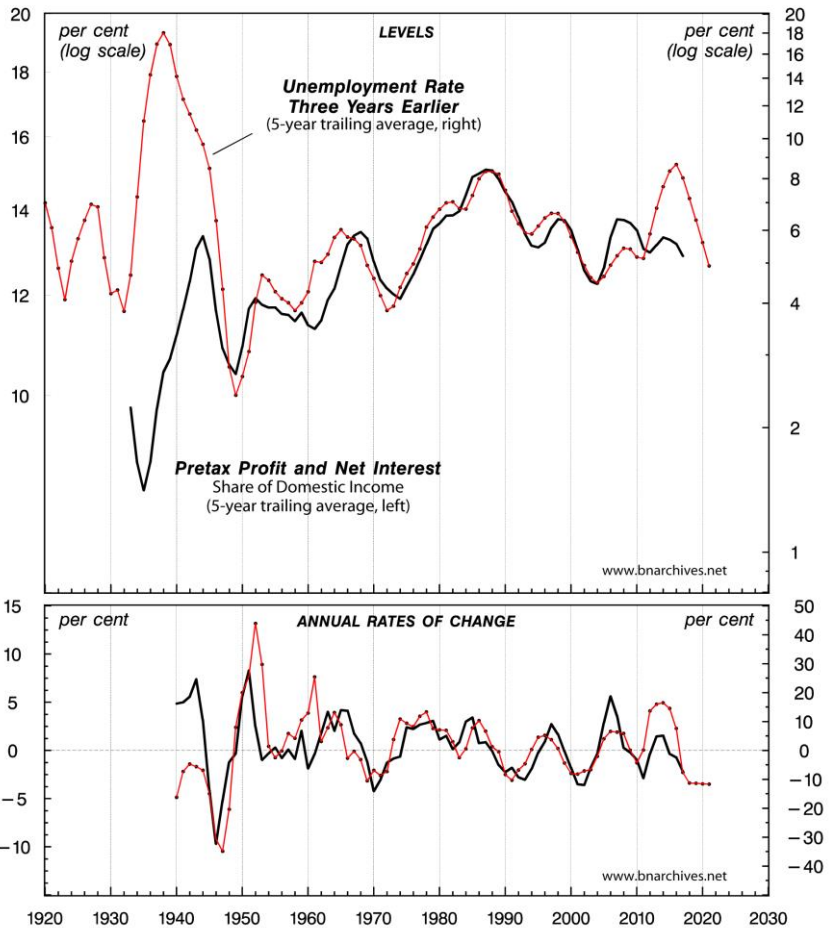
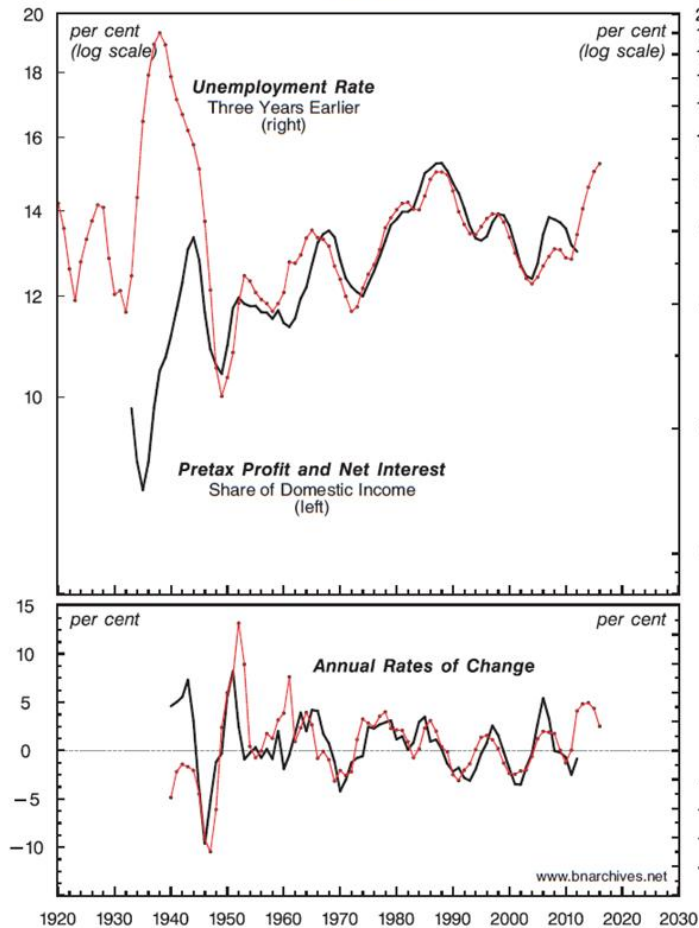
The Coming CasP Crisis

Looking forward, the prognosis for capitalists seems negative. Over the last few years, unemployment has fallen sharply, and if the predictive power of our chart remains intact, the capitalist income-share-read-power is bound to contract further, raising the ante for a prolonged accumulation crisis. Eventually, though, capitalists are likely to resolve their CasP crisis, as they have done repeatedly for nearly a century, by offloading it onto the underlying population in the form of rising unemployment.

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Figure 15
U.S. Unemployment and the Domestic Income Share of Capital
 1920-2013

U.S. Unemployment and the Domestic Income Share of Capital
 1920-2018



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 2012 for profit and interest and 2013 for unemployment.

NOTE: Last data points: 2017 for profit and interest; 2018 for unemployment.
 SOURCE: Historical Statistics of the United States; Bureau of Economic Analysis; Bureau of Labor Statistics.

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]).

References

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