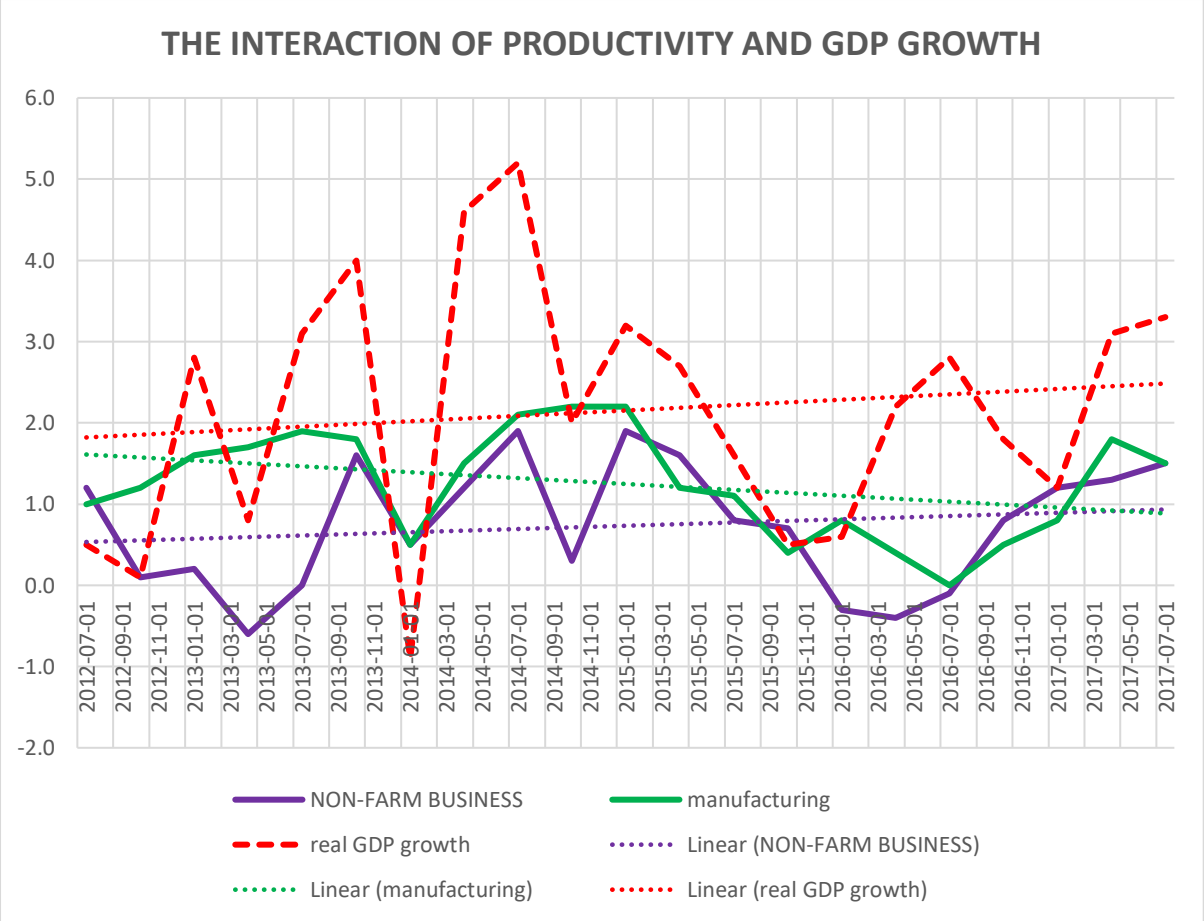
THE STRANGE CASE OF THE FALL OF MANUFACTURING PRODUCTIVITY AND THE RISE OF NON-MANUFACTURING PRODUCTIVITY.

In the last few quarters, in what may be called the Trump era, the data emanating from the Bureau of Labour Statistics and the BEA have become more irregular. Despite the major industries in the USA being becalmed, with the only fillip being the hurricane/fire induced repairs of $150 billion (equal to a Trump infrastructure boost), GDP has blossomed to a Trump triumphant 3.3%. The question is whether this rate of expansion for the economy is real.

One way to address this question is to use the metric of productivity. Productivity outside manufacturing was non-existent in the USA during 2015 and 2016. This coincided with weak real GDP growth. In 2013 and 2014 inflation adjusted GDP growth averaged 2.7%, then it fell to 2% in 2015 and to 1.9% in 2016. During 2015 and 2016 when GDP growth was lower, at around 2%, non-farm business productivity fell from 1.1% to 0.7% (averaged over the two years). This can be seen in Graph 1 below which covers the five-year period from the third quarter of 2012 to the third quarter of 2017. GDP is the broken red line and non-farm business productivity is the purple line.

Graph 1.



(Sources: FRED Tables PRS85006091 for non-farm business productivity, PRS30006041 for manufacturing productivity and A191RL1Q225SBEA for GDP growth.)

We note the correlation between the movement of GDP and productivity (non-farm). Peaks and troughs coincide. The same cannot be said for manufacturing productivity. It is less volatile and more

disconnected than non-farm productivity. It rises on occasion even when GDP growth falls and falls when GDP rises as occurred in 2016.

However, these observations are of general interest. Specifically, what happened over the last year is significant, because now the patterns are inverted and unusual. Since the third quarter of 2017 non-farm productivity has overtaken manufacturing and it did so for an unusually long period, three quarters in a row. Manufacturing productivity did overtake non-farm in one quarter, the second quarter of 2017, only to fall by 4.4% over the next quarter (annualised) while non-farm productivity rose by 3%. This is an unexpectedly large divergence of 7.4%.

At the same time GDP rose to 3.3%. Exactly a year ago, the second quarter of 2016, GDP peaked at 2.8% annualised, while non-farm productivity measured - 0.1% annualised, contributing to a gap of 2.9% between the two rates. In the third quarter of 2017, GDP growth was 3.3% while non-farm productivity was 1.5% resulting in the gap shrinking to 1.8%. Assuming that gap was held constant at 2.9% either GDP would have reduced from 3.3% to 2.2% or non-farm productivity would have been revised upwards to 4.1%.

To answer this conundrum, short term fluctuations need to be ironed out. If we turn to the three linear trends, the following observations stand out. Firstly, GDP growth has been accelerating. Secondly, non-farm productivity has been accelerating and could overtake the trend for manufacturing. Thirdly, manufacturing productivity has been falling.

The first consideration is the juxtaposition of manufacturing and non-farm productivity. Manufacturing productivity has historically outpaced non-farm productivity for three reasons. A greater investment in labour power enhancing machinery and equipment occurs in that sector. Secondly, following the advent of globalisation, the transfer of value from countries like China via under-priced inputs has boosted productivity in those industries most exposed to international trade. Finally, the outsourcing of unproductive front office activities, which while leaving the value of output unchanged, reduces the number of workers in manufacturing over which that output is measured. Manufacturing productivity could therefore be affected by any of these three factors or a combination of these factors: either investment has not been dynamic, or outsourcing has been more or less exhausted or China has moved up the value scale contributing fewer cheap inputs.

There is a fourth consideration which is unconnected to the former three, and that is international competition keeping the price of output down. However, it is unlikely that international competition is a cause over the last two quarters, as the recent synchronised expansion of the world economy has mitigated this. It is also unlikely that the weight of the previous three factors, even compounded, can explain the juxtaposition between the two rates of productivity.

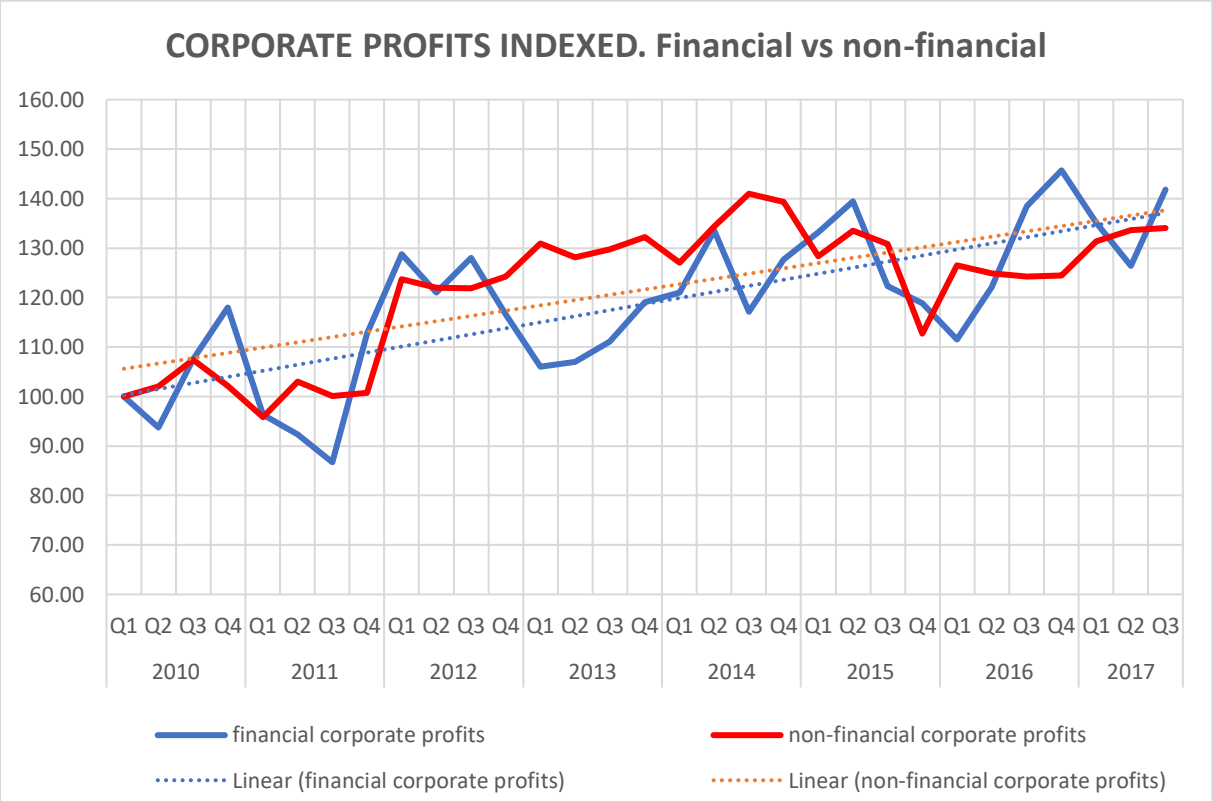
Instead a simpler explanation exists: both GDP and non-farm productivity (which depends on GDP growth) are overstated. This simple explanation is consistent with a bubble economy where GDP is influenced by speculative froth. Since the election of Trump, US shares have gained $5.4 trillion (Yahoo! Finance 8th November 2017) equivalent to 28%. To this can be added the 5.5% price increase for all the residential properties in the US (135.5 million units) amounting to $1.8 trillion bringing the total to 37% of GDP. Share values compared to GDP now stands at 135% second only to the all-time historic high of 151.3% in 2000 (at the height of the dotcom bubble).

A similar pattern occurred in the year running up to the great financial crash in 2008 as the speculative froth increased. Annual non-farm productivity rose from a nadir of -0.6% in Q3 of 2006 to 4.9% in the third quarter of 2008 at an annualised rate. (For the purposes of comparison, non-farm productivity growth also peaked at 6.6% in the final quarter of 1999.) This time round, the movement from nadir

to peak has not been as extreme (though to be sure the ultimate peak in productivity growth is not known at this time) but it is still a considerable 3%. More to the point, most of this 3% has occurred over the last two quarters. Taken in isolation, if this six-month period is extrapolated, then the current annual rate significantly exceeds 3%.

This begs the question why speculative froth increases the tempo of non-farm business productivity. The answer lies in the leakage from the fictitious economy into the real economy. This can be seen in several ways. Firstly, the expansion of the financial sphere relative to the non-financial sphere. This can be seen in the growth of wages and salaries in the "other services producing industries" of 2.6% between January and October compared to 0.8% for goods producing industries (BEA National Income Table 2.7 Wages and Salaries by Industry, Monthly) Of course most of this increase is concentrated in the top 1 of wage earners. It can also be seen in the trend of financial profits relative to industrial profits presented in Graph 2 below.

Graph 2.



(Source: BEA Interactive Tables, National Income Table 1.14)

Beginning in early 2016 financial profits have grown faster than non-financial corporate profits due to the bull run. In dollar terms, over the last two years, measured by quarter, non-financial profits have increased by $75bn while non-financial by an insignificant $27 billion (and some of this are financial profits masquerading as industrial profits). Other indicators include the increase in rents due to the increase in house prices, but not interest payments nor dividends which have been static. All these increases in income, both real and imputed however do not tell the whole story.

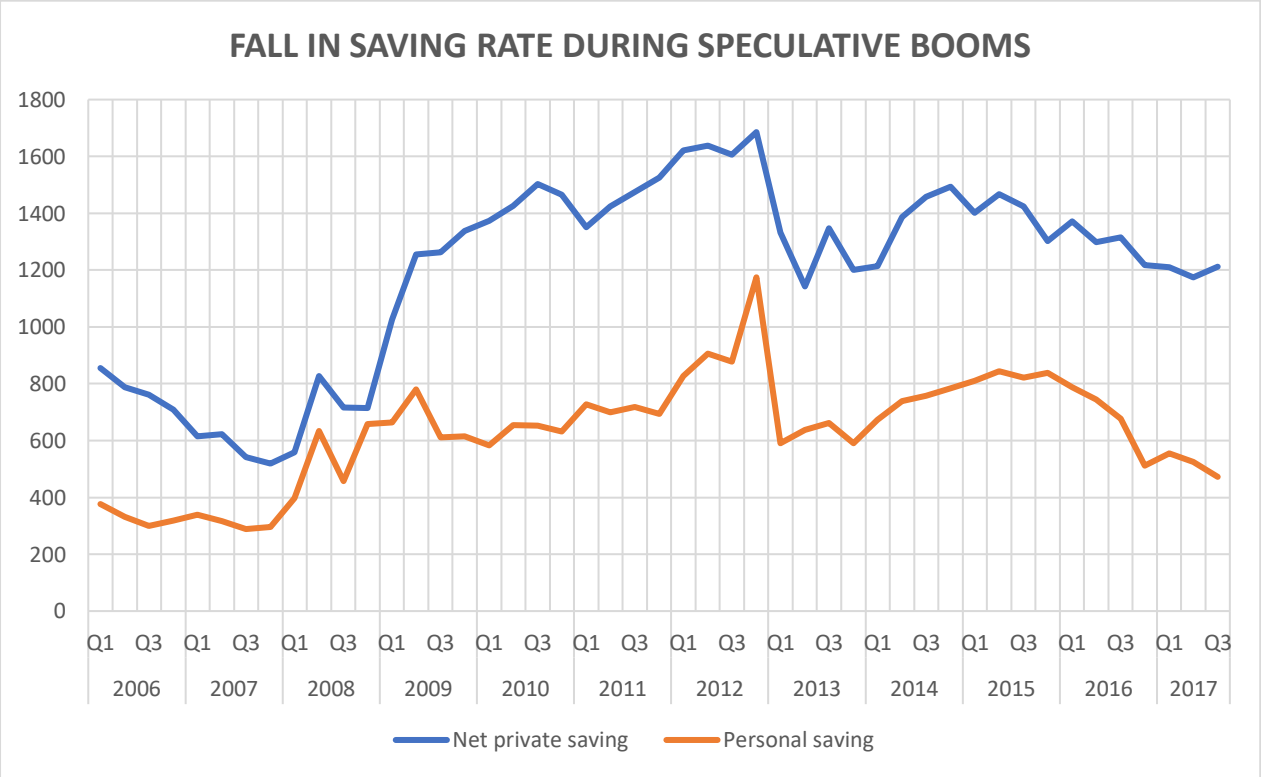
Not all income is captured by the SNA. Much of the income of the richest capitalists go undetected and unrecorded. And by capitalists we not only refer to domestic capitalists but foreign capitalists as well. While it is easier to hide their income, it is more difficult to hide their purchases. Therefore, the

best way to capture this leakage is to investigate income versus expenditure as the BEA does in Section 5 of the National Data.

Here the saving rate or amount of saving is not measured directly. It is used to reconcile the difference between the income side and the expenditure side. (*1.1 Standard measurement of household saving Conceptually, saving is not a directly measurable macroeconomic variable. The national accounts define this aggregate as a balance. More precisely, saving is the balance item of the "Use of income account"*. Bank of International Settlements). If all the income side was captured, then the savings rate would be accurate. But if the income side is not accurate, then neither can the balance of savings.

It is accepted wisdom that during the period preceding a recession, expenditure will accelerate, because consumers are saving less. The alternative view could be that some of the gains from the share market boom and other bubbles in the form of hidden income is being used to pay for these expenditures. This being so, it means that savings are not falling or falling at the rate indicated by the national accounts. Therefore, the fall in the savings rate is illusory. It is more a consequence of the growth in expenditure driven by this hidden income, rather than the difference between expenditure and explicit income.

Graph 3.



(Source: BEA Interactive Table 5.1, National Income)

The sums recorded by the change in the rate of saving are considerable, exceeding the increase in profits, rent, and interest. In Q3 2015, total personal savings amounted to $822 billion and in Q3 2017 to only $472 billion, a difference of $350 billion. This compares to the increase in corporate profits during the same period of only $102 billion.

If proof is needed that savings at this time is an inaccurate balancing measure, then personal lending provides it. It can be assumed that that the fall in savings should be associated with a rise in personal

borrowing if spending is increasing for visible reasons. If consumers are saving less in order to spend more, why not borrow to spend more as well. In the most recent 24-month period ending Q2 2017, the opposite has happened, net lending fell by $351 billion. This cancelled out the fall in the amount of savings thereby reducing the effect on expenditure to close to zero.

The obverse effect takes place during periods of recession. Now the savings rate rises. This rise is used to explain the basis for the recession because more savings means less spending. Is the rate of saving during this time, real? Paradoxically it is. During periods of recession losses replace profits in the realm of fictitious capital. There is less hidden income, or it may even be the case, that losses replace this hidden income. Hence the recording of total income becomes more accurate and with it the savings rate as a balancing figure.

In summation. During an upturn prices tend to increase. The "prices" that rise fastest are those outside the realm of production and distribution which together constitute the real economy. This gives the illusion that nominal output is increasing faster (currently at 5.4%) and even adjusting for inflation (an impossible task because it is impossible to measure inflation in the financial sphere) "real" output is rising faster as well. This being so, non-farm business productivity will appear to be increasing faster than that in the goods producing sphere because it encompasses 80% of the known economy.

The strange effect that Google, Facebook and Netflix have on GDP and productivity.

Thus far we have focused on the overstatement of current productivity due to speculative froth. On the other side is the underlying understatement of productivity in the information age. This age has been described as the rise of intangible assets and given the multitude of books that have been written on this subject, referencing them is unnecessary. All these books make the same mistake. They confuse use value with exchange value, the physical form with the social form. The appearance of a use value is irrelevant. Use values can range from nuclear isotopes with half-lives measured in centuries to a song sung at a music festival which is consumed so soon as it is produced, or from a tough sheet of titanium to a flimsy bubble blown by a child leaving a toy shop. But what unites these diverse forms is this: the requirement that this labour is produced for sale and has been sold?

Marx was originally criticised for confining commodities to the tangible. He never did this. Instead it was his critics who were guilty of so doing. For Marx, the form any use value took, was irrelevant. What was relevant, was whether or not that use value, tangible or intangible in form, was produced for sale. If it took the form of a commodity.

The importance of this distinction leads directly to the business model adopted by many of the largest Tech corporations particularly Google, Facebook and Twitter. These corporations are not based on a "pay-to-use" service funded by the actual sales of their services in the form of a subscription, or a pay to view, or a pay by click. They are free to use. Their revenue derives mainly from the advertising revenue their platforms are able to attract. In the case of Alphabet (Google) this amounts to 87% of its revenue and in the case of Facebook virtually 100%. It is the ability of these Tech corporations to monopolise advertising revenue that has transformed them into the Giant Corporations of today with their elevated share prices.

But while these tech companies log advertising as a revenue, this revenue is logged as a cost by the advertisers who pay for it like Procter and Gamble (P&G). P&G records this expenditure under the heading of advertising expenditure in its Profit & Loss Account. In other words, the advertising revenue logged by the tech companies as income represents an expense, a loss to the advertiser, a reduction in their gross profit.

Google's "value added" is therefore not new value, but value transferred from Procter and Gamble to Google. In the language of the National Accounts, however, this transferred value, or part of it is recorded as new value added, as though it emanated from within Google instead of from outside Google. How does the Bureau of Economic Analysis in the US record or account for this new value added? It begins with the total amount of advertising that flows to the tech industry from other industries like the "Motor Vehicle Industry" (if Ford is advertising) or the "Soap, Cleaning Compounds, and Toilet Preparations Industry" (if P&G is advertising). It then deducts the revenue that flows out of the tech industry to other industries in the form of their expenses such as rent to the Financial Sector, gas and electricity to the Utility Sector, accounting services to the Professional and Business Services Sector and so on.

The balance which is left over after the minuses (outflows) are deducted from the plusses (inflows) makes up the Value Added by the Tech industry. And from this figure arises the gross profit, taxes and compensation the Tech industry contributes to overall GDP. (Of course, we have used the term Tech Industry loosely as some value added is produced within this industry not simply transferred to it. Microsoft earns its income primarily from sales.)

The question that is now posed is what would happen if those giant corporations reliant on advertising, changed their business models, if they were forced to move from free-to-use to pay-to-use because advertisers now believed they were not receiving value for money. Many things will change. If Facebook now charged every consumer a flat rate of $10 p.m. to use their account, then hundreds of millions of consumers would be worse off by $120 p.a. Cash would pass from the hand or finger of the consumer to the coffers of Facebook.

However, something else would have happened. For the first time Facebook would be producing a commodity. That commodity would be its social media. Consumers would now be paying for the use of that media. The labour of its programmers and analysists would be sold for the first time. The programmers would now be paid from the proceeds of their labour rather than from revenue generated by other workers say in Procter and Gamble. (Facebook may appear to be free, but in reality it is being subsidised by the labour provided by workers in companies like Procter and Gamble.)

The giant offices of Facebook, wherein sit tens of thousands of programmers and data analysts, would no longer differ, socially, from the giant production lines where Procter and Gamble turns oil into soap flakes. In both corporations, labour is now being produced to be sold, regardless of whether the former is intangible and the latter fragrantly tangible. Only now is the consequence of confusing the form of a product with its social context, clear. Because most of the new tech companies do not sell the labour of their workers as a commodity and because the form this labour takes is mainly intangible (intellectual), vulgar bourgeois economists assume that these new intangible forms are somewhat special and new.

They are not. So soon as these companies move to a model that demands payment for use or view, it will soon become apparent that these intangible products have become commodified and therefore quite boring, even stale, certainly not a new species. What will be learnt anew is that it is the social form that is important and not the physical form, that in this context, the tech industry is merely adding a new series of commodities to the long line of commodities resulting from the international and historical division of labour.

In the mean-time the continuing contradiction in the tech world between the physical expenditure of labour and its social application has profound consequences for both the measurement of GDP and productivity. As long as the labour of the programmers and workers within Google, Facebook, Twitter

and a myriad of other internet platforms are paid out of advertising revenue, rather than sales, both GDP and productivity is understated.

This becomes clear when an example is provided. The advertising revenue consumed by these tech companies in the US according to PWC's IAB internet advertising report (https://www.iab.com/wp-content/uploads/2016/04/IAB_Internet_Advertising_Revenue_Report_FY_2016.pdf) runs close to $90 billion p.a. If we were to assume that of this $90 billion, $50 billion was withdrawn by advertisers and replaced by $50 billion in subscriptions, then we could assume correctly that the revenue of the tech companies remains unchanged. The same cannot be said for GDP and productivity assuming that total advertising revenue within the economy was unchanged (but that within this figure advertising was diverted away from digital advertising).

To answer this question, we must continue with our numerical example. If we assume, (because accurate figures are difficult to obtain), that these tech companies used to earn a gross margin (or value added) of $20 billion out of this $90 billion in advertising revenue, then the following would happen or not happen. From the point of view of the tech companies all that has changed is that the mix of their revenue has changed. If the cost of administering subscriptions is offset by savings relating to seeking out advertisers, then their profits, wages and margins will be largely unaffected.

The same cannot be said from the standpoint of the National Accounts. Firstly, intermediate sales as inputs will fall from $90 billion to $40 billion in the tech industry due to the fall in advertising revenue of $50 billion. However, if that advertising spending is now redirected to cinemas and newspapers, then the revenue in the Publishing Industries and the Amusement and Recreation Industries will go up by a combined $50 billion. Therefore, while the GDP attributed to the tech sector will remain unchanged the GDP attributed to the Publishing and Amusement Sectors will go up by $50 billion. Consequently, total national GDP will increase by $50 billion registering the new social reality, namely that labour expended in the tech industry is now being converted into exchange value through sale.

Any boost to GDP is a boost to productivity. In this example the number of workers has not increased nor have their hours, only GDP has changed. This being so, a higher GDP must translate into higher productivity. This answers one of the conundrums as to why productivity is flatlining in specific industries particularly since 2008. Productivity is understated because much of the labour expended in the new tech industries is not being converted into value through sale. Instead it is being paid for by revenue generated in other industries and transferred to it. Transferred value does not increase GDP because it has already been accounted for in the industry from which it emanates.

Hence the disjuncture between the physical labour expended in the economy and its value form has increased because much of the labour in the new industries is not sold as a commodity. And because this labour does not assume a commodity form, it leaves GDP unaffected, or more accurately, understated. As the weight of these new corporations has grown, so too has their impact on GDP and productivity.

However, the issue is somewhat more complicated. Grappling with this new reality the various statistical bureaus around the world have revised the way they account for Intellectual Property in the SNA. They have resorted to capitalising Research & Development as well as in-house software. To achieve this, they have pretended all of it is sold by means of an imputed sale. They have in effect created fictitious final sales. Unfortunately, these imputed sales exceed the missing sales found in the tech industries because they are applied to all industries where R&D and computer programmes/data bases are used. Therefore, on balance, GDP and therefore productivity for the economy as a whole, rather than specific industries, is overstated.

Where are we in the business cycle?

Conventional wisdom, that is the majority of Wall Street and City Analysts, holds that we are entering the 9th year of the expansion that begun in mid-2009. This will make it the second longest post-war expansion eclipsed only by the expansion that ended with the dotcom bubble burst in 2000. See Graph 8.) This longevity is attributed to the easy money relay race, as one central bank hands over the QE baton to the other. It is also attributed to an expansive Chinese economy.

There is another way of looking at the current cycle: that rather than one cycle occurring since 2009, there have been two. The first spanned the second half of 2009 through to the third quarter of 2015 when it was interrupted by the fall in real production in the final quarter of 2015 and the second quarter of 2016. The period of expansion was thus 6.5 years which is close to the average of 7 years. The second period of expansion began in the second quarter of 2016.

The recession at the end of 2015 is not generally recognised. No economy had negative growth despite the sharp slowdown in growth in both the US and China, the world's largest economies. The reason that the recession was not recognised as such in the USA was that GDP expanded by 0.5% and 0.6% during those two quarters. However, in the US any real growth below 1% is really negative growth. This is due to the inflation of GDP by imputations, duplications and omissions. The first 1% to 1.2% of GDP growth is statistical noise caused by factors like a growing budget deficit, imputed owner occupier rents at a time of rising house prices, inflated R&D and so on.

In the case of China, the economy was rescued by a housing bubble, and once again, state sponsored infrastructural spending. If it is the case that there was a recession which dared not speak its name, then we are into a new business cycle. A new business cycle means a new recession is not imminent. This is not inconceivable.

However, the matter is more complicated. As Marx identified, the process of capitalism is convulsive. Capitalism grows not because it avoids booms and busts but because the booms exceed the busts. A recession is the explosive resolution of a period of overproduction. It is the period where unprofitable capital, over-indebtedness and fictitious capital is swept aside, clearing the way for the next round of accumulation.

Except that this did not happen at the end of 2015. Before proceeding, it is worth elaborating on the Chinese state's approach to overproduction. Generally, capitalists run from problems or losses in order to preserve their capital. In China the state runs at the problems with additional capital. (A worthwhile account of this is written by James Stent in his book, *China's Banking Transformation: The Untold Story.*) In China, the state, once again, used state credit to expand production to mop up excess capacity, rather than destroying that capacity and in so doing improve the efficiency of the remaining capacity. It is however a strategy blighted by diminishing returns.

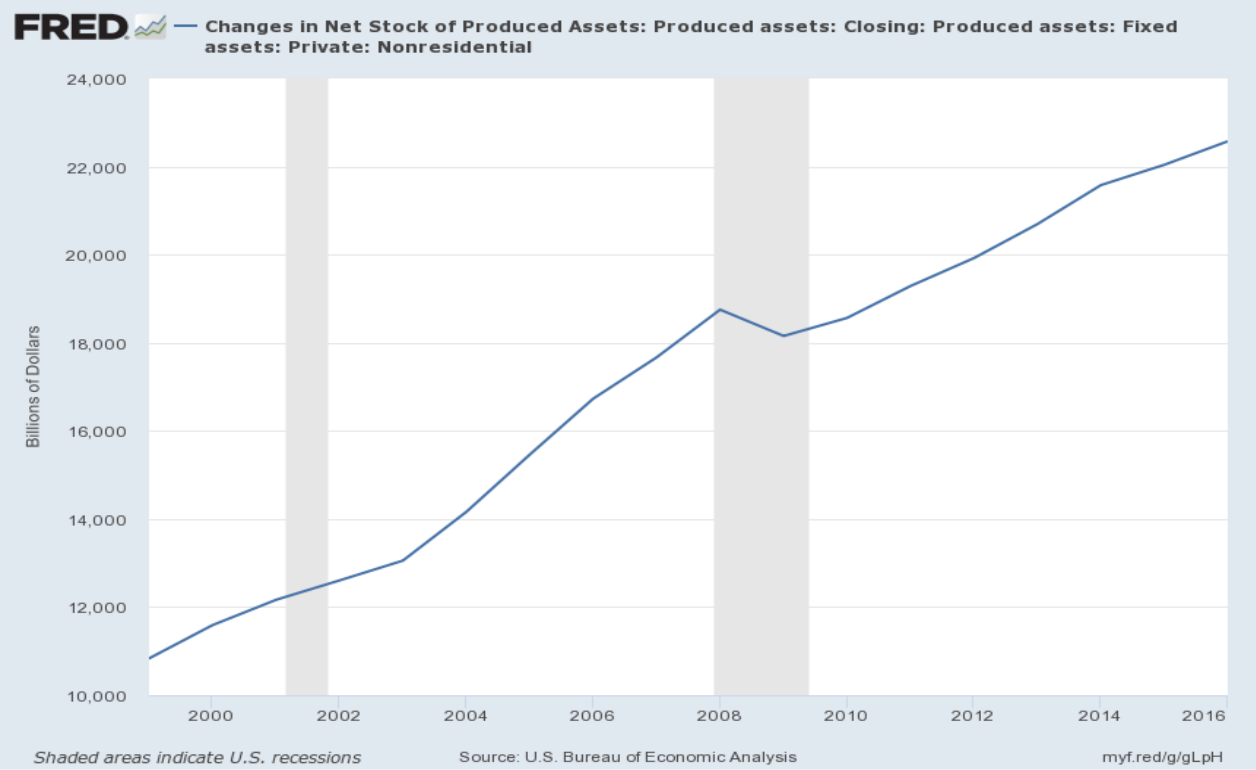
To a lesser degree, and indirectly, the USA achieved the same result. The persistence of extraordinarily low interest rates reduced the cost of capital, preserving zombie capital. In short, very little "creative destruction" of capital took place at the time.

Creative destruction is not an option for the capitalist mode of production, but a necessity forced on it which only the working class can and should prevent. The up-phase of the business cycle is driven by capital accumulation - investment. But this very investment, which increases the amount of means of production relative to the employment of labour power, ends up limiting the growth in the rate of profit. This is further exacerbated by the inflation which accompanies the terminal phase of the business cycle, and, which by increasing the price of capital, now makes investment unprofitable.

As investment falls so does production precipitating a recession. It now appears that there is too much capital relative to profits. This over-accumulation of capital needs to be resolved in the only way it can be: the capital that least contributes to profits and which is now a drag on profits needs to be culled and/or at least devalued. The result is a rise in the weighted average potential of the remaining capital measured by the extension of the unpaid part of the working day potenbtiating more profits to be measured against less capital. Capitalism emerges into the next phase of accumulation leaner and fitter while the working class is pauperised. This is what is meant by creative destruction, the destruction of the old to make way for the new, it is the inhuman means by which capitalism revolutionises production at the expense of the working class.

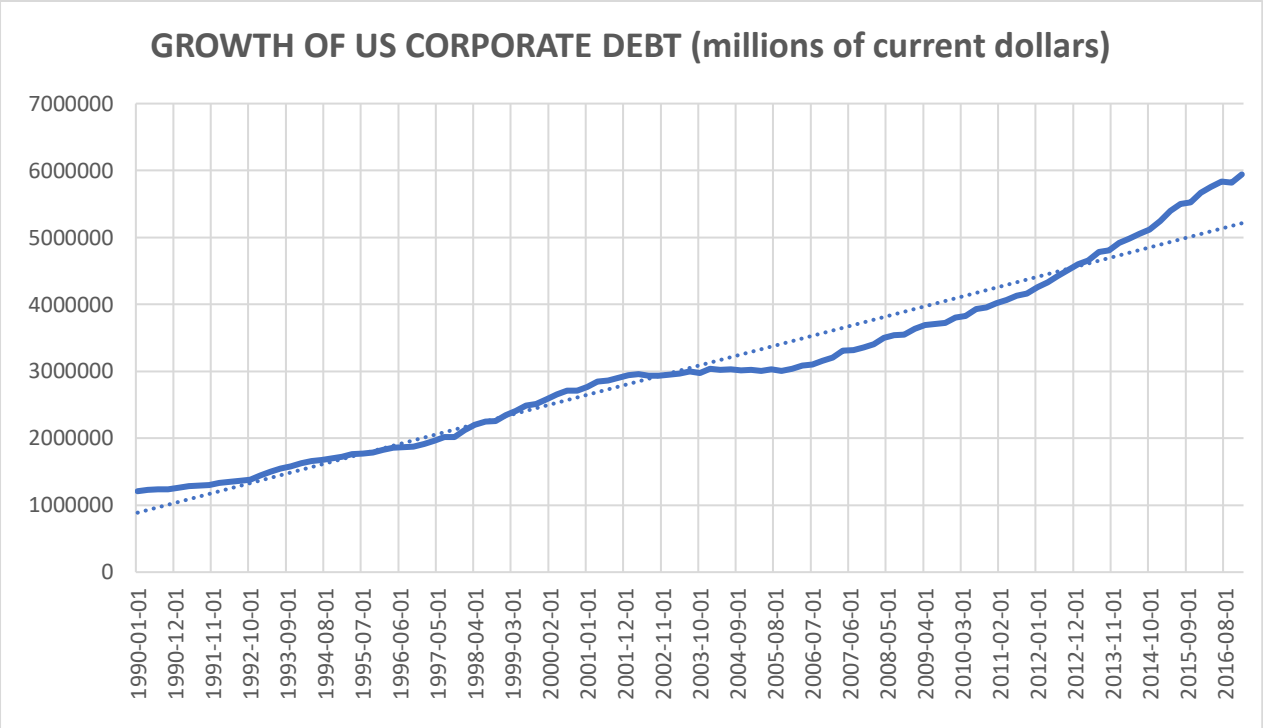
Except, that as has been said, this did not happen in any significant way at the end of 2015. This can be seen in three ways, firstly, there was no destruction or depreciation of capital, secondly, there was little writing-off of debt, and finally fictitious capital was not lost at the table. This is demonstrated in the following three graphs. Their combined movement confirms how little creative destruction actually took place.

Graph 4. Fixed Assets



The shaded areas are periods of recession. Only after 2008 was there a significant reduction both in the quantity and value of fixed means of production. In 2015 there was no annualised write off. All that transpired was a reduction in the rate of accumulation from 2014. Just as the graph ascends more slowly in the recovery after 2008 compared to pre-2008, so after 2014 its ascent reduces further.

Graph 5. Corporate Debt



(Source: FRED Table TDSAMRIAONCUS)

In the case of corporate debt, instead of falling, it is accelerating. The corporate accumulation of debt, not only in the US, but globally, is at an all-time high. Finally, Graph 6 below shows the inexorable rise in the price of shares, that most handsome and seductive face of fictitious capital.

Graph 6. Share Prices

Here interestingly, share prices did track the weakened economic conditions that undermined confidence at the end of 2015. But this was short-lived, within months, share prices recovered and accelerated away into the stratosphere. Some analysists now contend that share prices and

indebtedness are higher than the conditions that obtained before the 1929, 2000 and 2008 recessions. The crypto-tulip bubble, bitcoin being just one outstanding example.

It is not true to say that before a crash, when greed and optimism are in full flight, that there is an absence of realism within bourgeois circles. There are always contrarians who are dismissed at the time, only for their insights to be appreciated after the crash. Below are two of the most insightful pieces of research analysing current stock market and credit conditions.

https://seekingalpha.com/article/4131682-speculative-frenzy-smells-like-2000?auth_param=1en7tk:1d3332g:e89bf3c6ff8f7ada3d998082db8275c2&uprof=46&dr=1

https://2017%20NEW/Crescat-Capital%20OVERVALUED%20STOCK%20MARKETS.pdf

Profits pay the price.

One of the consequences of the failure to cull unprofitable capital is the subdued pace of profit growth. If we turn to Graph 2 above, we note that the mass of profits has not reached its 2014 peak. In the final quarter of 2014 the net operating surplus (which includes interest paid) for non-financial corporations peaked at $1774.8 billion (Table 1.14). Using the GDP Deflator this amounts to $1872 billion in today's money. In the third quarter of 2017 the surplus was only $1679.8 billion, down 11%. At the current rate of increase it will take another 2 years before the surplus matches the 2014 peak, if it ever does. This is an extraordinary 5 years. It took one year less, or four years, for the surplus in the second quarter of 2011 to match its previous peak in the second quarter of 2007, despite 2008 being recognised as the deepest crash since 1929. (It is also worth pondering over the fact that the surplus in the second quarter of 2017 was the first to exceed in real terms the pre-2008 peak since 2014!)

It needs to be acknowledged as well that large corporations with substantial liquid assets, have their own treasury departments that invest/speculate with these hoards. Therefore, within the profits of non-financial corporations, are financial profits. Given their more rapid recent rise, it is likely that the growth in profits resulting from production itself, is even more lacklustre than the $27 billion that has occurred over the last two years.

Shadowing this lacklustre growth in profits is the behaviour of interest rates. Currently the discussion surrounding the strange behaviour of short and long-term rates is reaching a cacophony. The gap between 2 and ten-year rates has reduced to around 0.5%. There is even talk of rate inversion when the difference is eliminated because ten-year interest rates fall below two-year interest rates. The compression of rates is due to one cause, the relentless rise in two-year rates.

A number of reasons have been given for this compression in rates. Firstly, the FED is tightening driving up short-term rates. Secondly the FED is about to sell its holding of long dated bonds driving down long-term interest rates. It is all about the FED's previous monetary policies. ZeroHedge in an article dated 26 November 2017, titled: *"When to Worry"? How Long After The Curve Inverts Does the Recession Begin,* concludes that what is happening now, is normal cyclical behaviour, and that the flattening in the yield curve is only three quarters complete (citing CITI data). The flattening of the yield curve and its ultimate inversion is important because it is one of the strongest signals of impending recession.

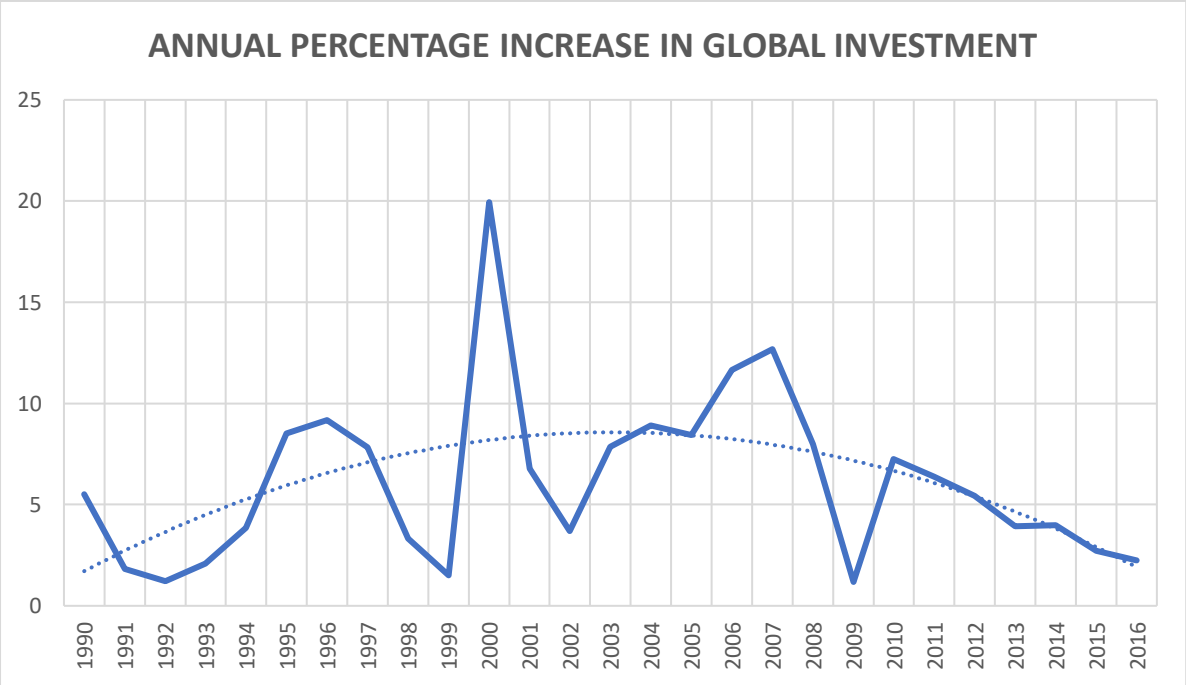
Of all the explanations for the curious behaviour of interest rates, it is the missing one that is most relevant. Interest rates are generally set by the interaction in the demand and supply for capital. This

being so, it is difficult to equate low interest rates with the boom in corporate demand for bonds and loans. Graph 5 shows the acceleration in corporate debt. From this we should conclude that longer term interest rates should be rising, except that they are not.

There is an explanation for this. Corporations are not borrowing to expand production. They are borrowing to either retire earlier and more expensive debt, or borrowing to pay dividends and buy back shares or generally increasing their liquid assets. In other words, while they are sucking in loan capital, they are spitting it out again. They reduce the hoard of capital through their borrowings only to replenish it with their deposits yet again. It is a circular movement. So, while the demand for loan capital has shot up, so too has the supply. The result, interest rates are becalmed because there is no shortage of available funds to be lent out.

What is not happening is investment. Graph 7 below shows the annual percentage increase in global investment. It has fallen for the last three years up to 2016. (Figures are incomplete for 2016.) Accordingly, the percentage increase in global non-financial corporate borrowing currently running at 8-9% p.a. has outstripped the global increase in investment in fixed assets. (S&P reporting global corporate debt will increase from $51 trillion in 2016 to $75 trillion by 2020 with China holding 43% of that total. 20th July 2016). It is too early to determine whether 2017 is a reversal of the trend for investment or merely a fillip.

Graph 7.

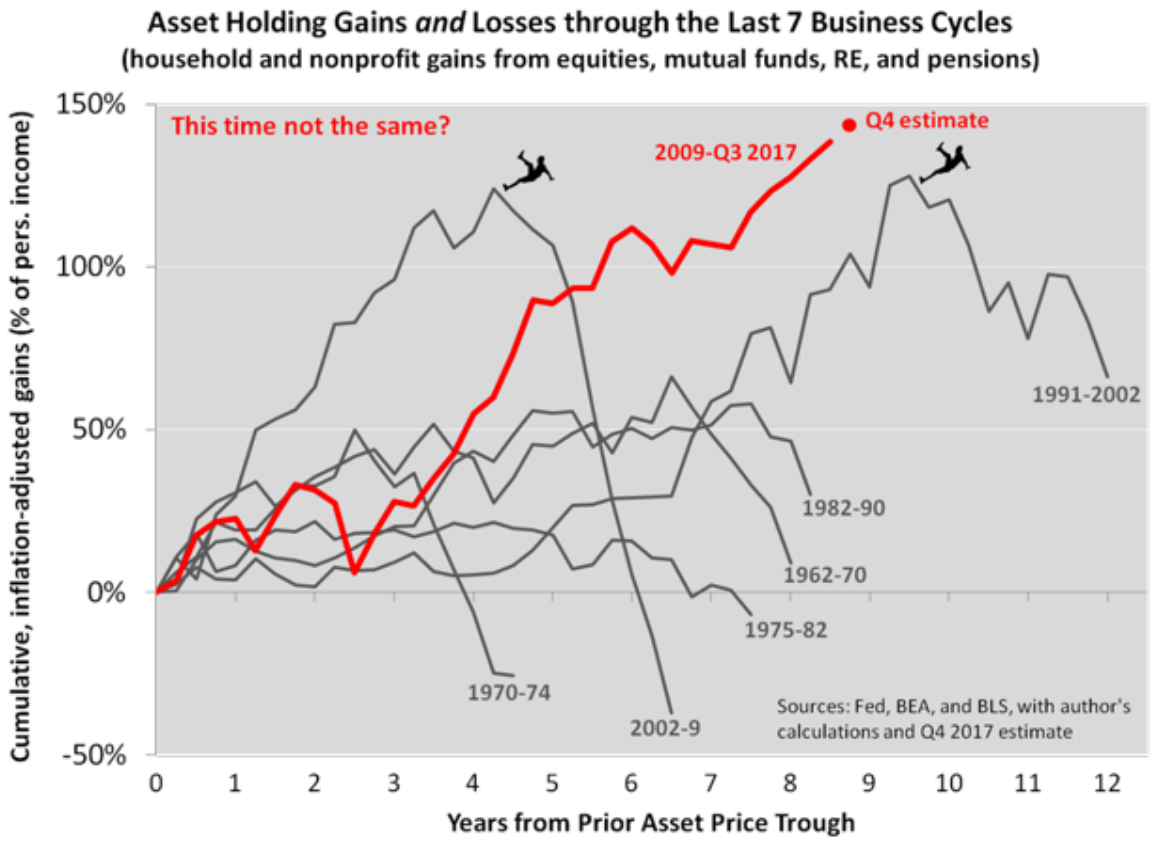


(Source: https://data.worldbank.org/indicator/NE.GDI.FTOT.KD.ZG)

While the analysists attribute the longevity of this expansion, weak as it is, to low interest rates, there is another interpretation. What welds this long period since 1996 together, since when fictitious capital has blossomed as never before, is a tragedy: the ongoing defeats of the working class and its resulting passivity. If the capitalists are partying, it is because the balance of class forces allows them to do so. And what a party it has been. As the final graph below shows, prepared by SeekingAlpha, this party exceeds all previous parties. This is confirmed by Credit Suisse's recently released 2017 Global Wealth Report. The most recent annual increase in global wealth amounted to $16.7 trillion. At $8.5

trillion the US accounted for 51% of this increase, and amusingly, most of it is fictitious, paper profits. (The current phase is the red graph which has gone higher, and longer than most expansions. It should be added that the start point for the current phase was also lower.)

Graph 8.



This expansion remains on shaky grounds. It remains driven by bubbles which for the time being weigh heavy on the shoulders of the working class. It is the richest 5% driving this expansion. They consume as much as the bottom 90%, but unlike the bottom 90% whose income is mostly earned, the riches that fall to the top 5% derive from the rise in the prices of shares, bonds, derivatives and residential property. As long as their paper profits make them feel richer, they will spend and when these profits are wiped out, as they were in 2008/9, they will stop spending.

In most ways Trump is the man of the moment, the man who personifies this mania, the man who represents the decline of US capital pretending to be its saviour. The tax cuts which are being passed by his party will keep the party going for a few more months, but only by adding ruin to an already ruined economy. It is too early to say with full clarity whether we are entering into a new business cycle rather than arriving the end of an old cycle. What can be said with clarity, is that the froth in the world economy is of such a magnitude, that its resolution will be most difficult to manage and its outcome impossible to determine.