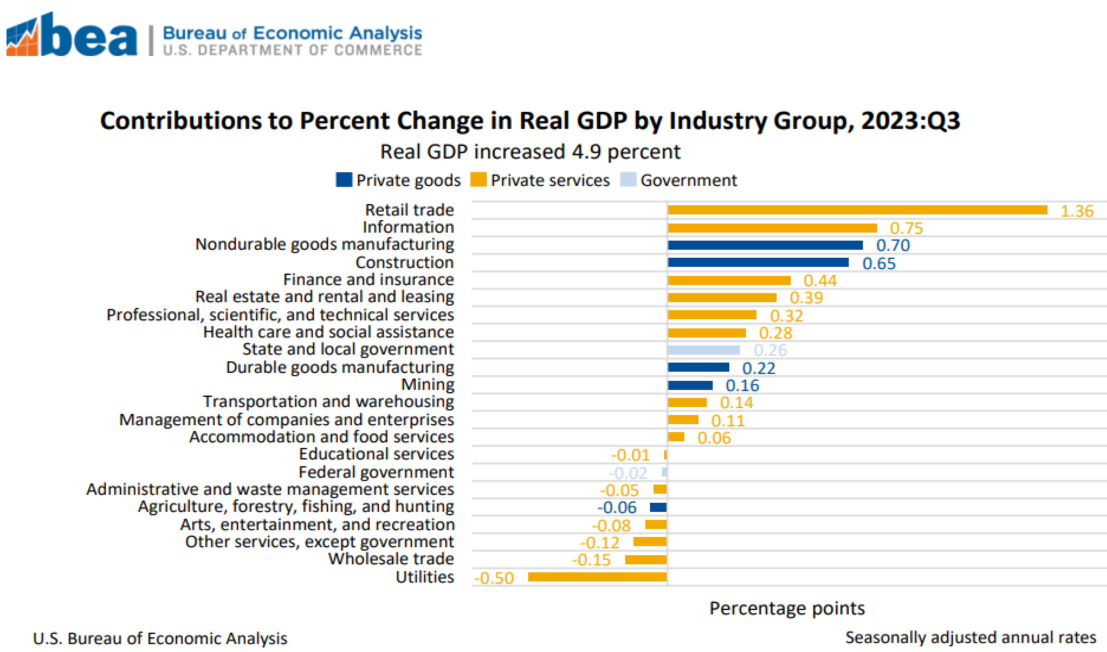
DUMB, DUMBER & FOSSIL BRAIN. ECONOMICS vs THE GREEN AGENDA.

History has many facets and traits, but the one that disturbs the most is the contemptuous one, the one that highlights how ridiculous a class appears when it has become historically redundant. I refer to the fossil fuel industry and its current offensive against the green agenda.

But before that a brief analysis of the US economy and an overview of the rest of the major economies. This helps to set the context for the offensive against the green agenda. In the case of the USA the reinstatement by the BEA of its quarterly GDP by Industry series has once again permitted quarterly rates of turnover to be calculated.

In the interesting graph below, we can see in greater detail which sectors drove the annualized increase in GDP amounting to 4.9% in Q3 2023. This detail is much more informative than found in NIPA Table 1.1.2, the Table usually referred to.

Graph 1.



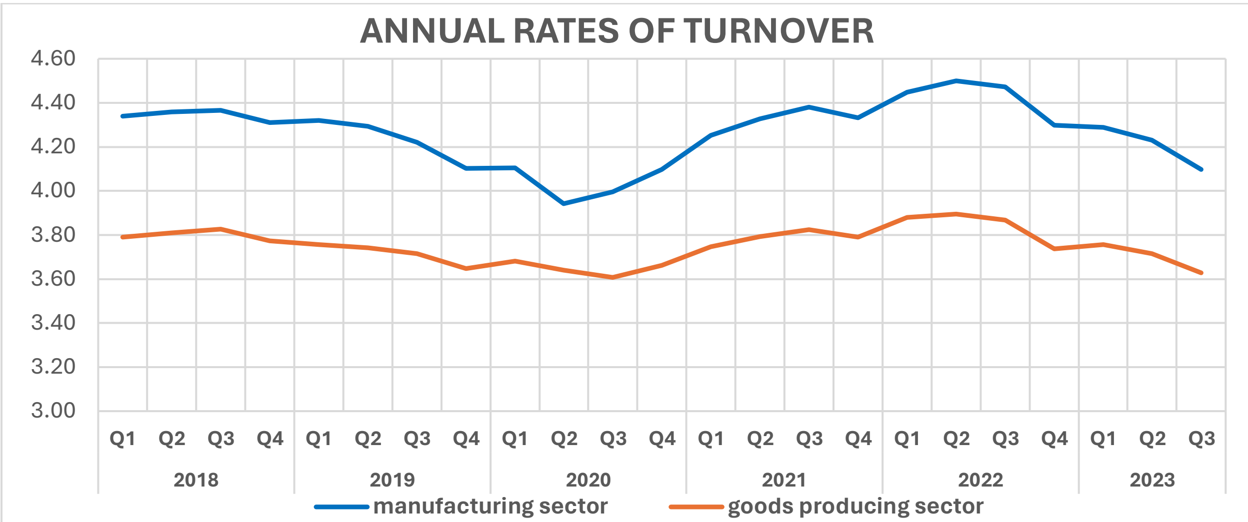
Gross Output by Industry

Real gross output—principally a measure of an industry's sales or receipts, which includes sales to final users in the economy (GDP) and sales to other industries (intermediate inputs)—increased 3.5 percent in the third quarter. This reflected an increase of 4.0 percent for private goods-producing industries, an increase of 3.3 percent for private services-producing industries, and an increase of 3.3 percent for government (table 16). Overall, 16 of 22 industry groups contributed to the increase in real gross output.

(Source: BEA)

We note that GDP rose faster than Gross Output, or 4.9% vs 3.5%, and this immediately informs us that the rate of turnover decelerated. This is confirmed by graph 2 below. This graph shows that turnover has reverted to the trough of 2019. It is another indicator that the economy's new normal has reverted back to its depressed or old normal 2019 levels.

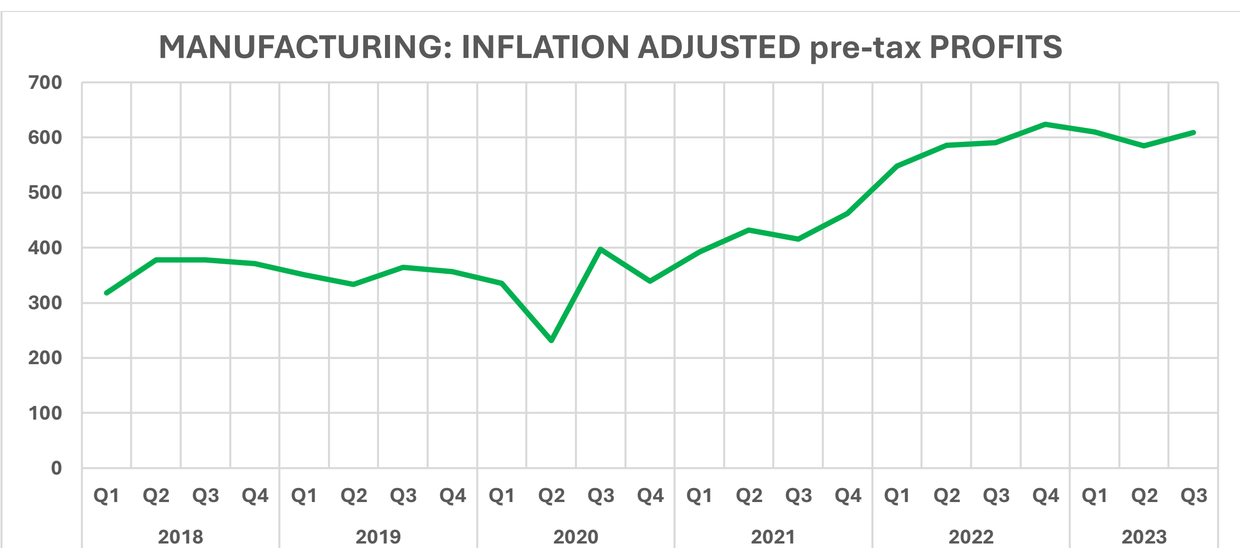
Graph 2.



(Source: BEA)

The mass of profits follows the fall in turnover. The upward trend levelled off in Q2 2022 (Graph 3). The reader may feel that synchronicity has been lost because profits did not actually fall, but this was entirely due to the effect of net interest paid due to interest rates rising beginning in 2022. The larger amount of interest received by the larger corporation investing their cash hoards boosted their profitability and offset the aggregate interest paid on borrowings by the smaller corporations. Adjusting for this, the mass of profits would have in fact declined from Q2 2023 in line with turnovers.

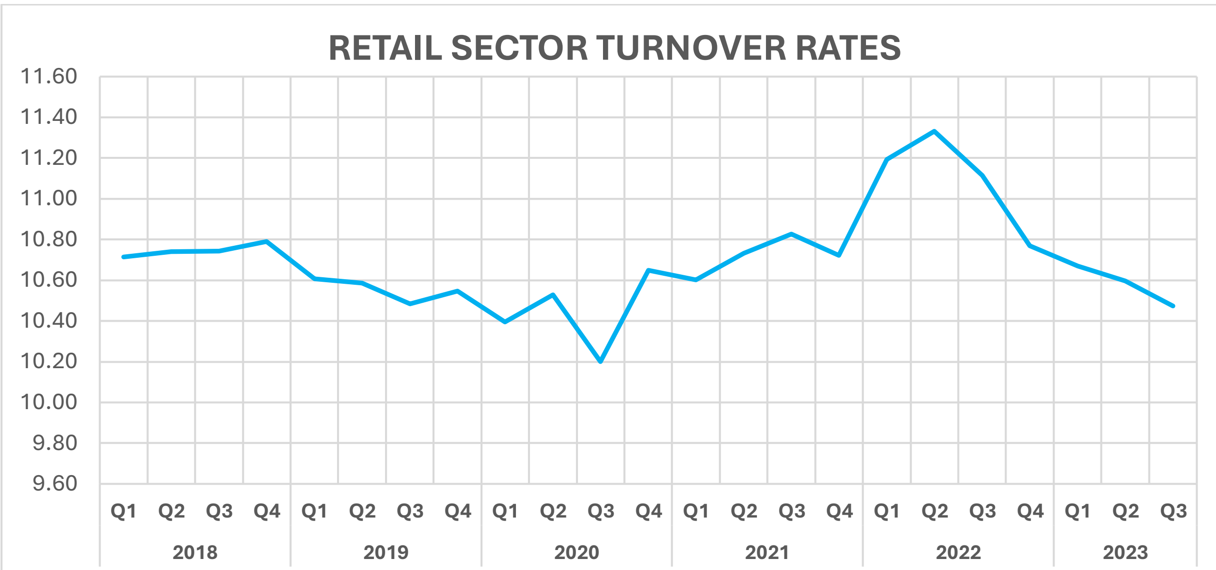
Graph 3.



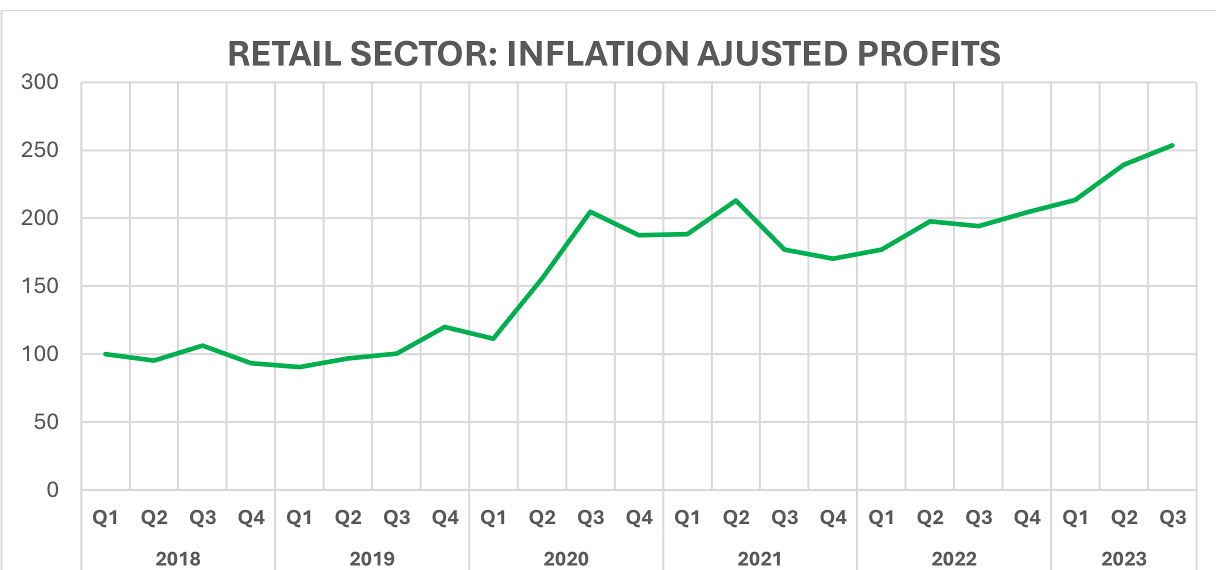
(Source: BEA)

The same cannot be said for retail. In Graph 1 we noted that the outstanding contribution to the GDP increase came from retail. Accordingly I have graphed both turnover and the profits resulting from this. Here we do find a breakdown in synchronicity. Once the answer is provided the reader will have gained a brand new, never before seen, insight to the workings of the formula. What we see in this breakdown in synchronicity is profit gouging. In other words while turnover fell due to a fall in volumes as found in the financial reports of the consumer-facing corporations, profits rose. As GVA comprises depreciation, worker compensation and gross profits, it is clear that GVA will expand when gross profit expands proportionately more. And in no other sector other than energy was profit gouging more prevalent.

Graph 4.



Graph 5.

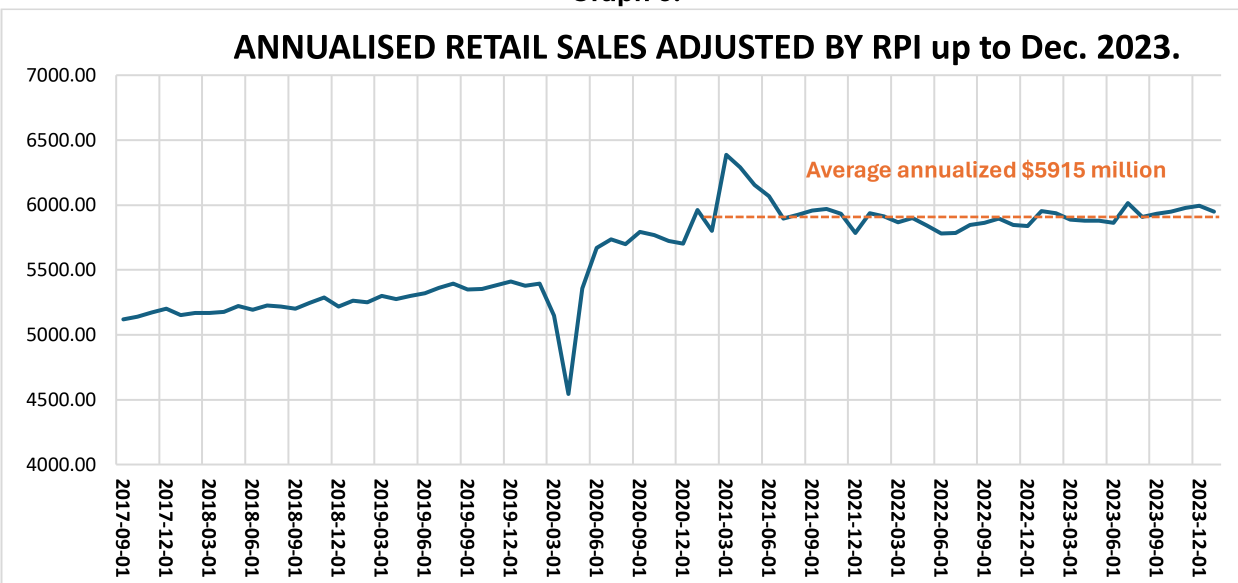


If profits boost GVA above the value of intermediate sales, this will cause turnover to slow down because a fall in the value of intermediate sales will lower gross output relative to gross value added. And this is what happened when supply side issues were resolved while energy prices fell. This could clearly be seen in the 'cost of sales' element in the financial accounts of the larger corporations. They fell as a share of sales. Another way of saying this is that the share of value found in the final sale is a greater proportion of the value of total sales because it is there that profits for the sector are realised. (Bear these observations in mind when you reach the section titled: Vindicated).

In conclusion, while turnover has fallen, it has fallen by less than the graph above suggests. This can be seen when we look at row 50 on the accompanying spreadsheet which uses the unadjusted turnover formula. For this reason, the contribution provided by retail in Graph 1 seems overstated.

In fact volumes over the last two years have been relatively flat as can be seen in the graph below.

Graph 6.



The second biggest contribution came from the information sector. Here too profits played a role. However, it must be recalled that extraordinary profits represent a redistribution of surplus value, and therefore have to come from somewhere else, the other sectors. Thus higher profits here mean lower profits there. Accordingly, the contribution to GDP from other sectors is reduced, which means that overall, these profits should not affect the size of GDP which remains overstated at 4.9% annualized.

"Japan, Asia's second-biggest economy, contracted an annualized 0.4% in the October to December quarter from the previous three months, following a revised 3.3% fall in the July to September period." On the day the Japanese Ministry of Finance issued this abysmal GDP data, the Nikkei index rose by almost one percent. Despite the economy falling into recession the Nikkei is soaring to levels last seen in 1990. However, the Bank of Japan is in a quandary, it is facing a declining economy, a collapsing Yen, rising inflation while all the time keeping its interest rate negative. I will deal with this in greater detail shortly when I examine profitability in Japan.

Turning to Germany. Due to higher inflation in Germany, and using existing exchange rates, Germany overtook Japan to become the 3rd largest economy in the world measured by nominal GDP. This was despite the fact that German GDP actually fell by 0.1% in 2023, having registered 0% growth in the 3rd

Quarter followed by a fall of 0.3% in the 4th. The fall would have been larger had there not been a sharp fall in imports. Therefore Germany is technically in recession.

Table 1.

Gross domestic product, price and calendar adjusted
Change on the previous year (in percent):

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
4.0	4.0	0.6	0.6	2.2	1.2	2.1	3.0	1.0	1.1	-4.2	3.1	1.9	-0.1

The same picture is present in the United Kingdom. *"UK gross domestic product (GDP) is estimated to have fallen by 0.3% in Quarter 4 (Oct to Dec) 2023, following an unrevised fall of 0.1% in the previous quarter. While the economy has now decreased for two consecutive quarters, across 2023, GDP is estimated to have increased by 0.1% compared with 2022."*

France, it seems could not get off the fence. *"In Q4 2023, gross domestic product (GDP) was stable in volume terms* (0.0% after 0.0% in the previous quarter)."* Once again, a fall in imports rescued French GDP from sinking into a technical recession. For the year as a whole, French GDP increased by 0.9%. For the year as a whole GDP in the EU was up 0.2%. Accordingly of the world's 7 largest economies, only the USA, China and India experienced economic growth as measured by GDP.

Given the data coming out of the USA, it is likely it will be joining the rest of the world, bar China and India, in recession this quarter.

Vindicated.

Before proceeding to matters green a welcome development regarding turnover. I was always of the opinion that bourgeois economists would apply turnover before Marxian theorists would, and I made that prediction public on a number of occasions, mainly to embarrass Marxists into adopting it. And so it has come to pass. In 2023 the British Office of National Statistics (ONS) used turnover to refine and improve upon their GDP data. I believe it is a world first. The link can be found here. Once you have opened the link, the relevant section is Section 7, titled: **Measuring gross value added (GVA) and the importance of intermediate consumption.**

If you have not read any of my articles explaining the turnover formula and therefore the relationship between intermediate and final sales (output as the ONS calls it) please turn to this article linked here. I do not know whether my work on turnover leaked over to the ONS. I will admit to having written to a number of statistical bodies but without ever receiving a response. And additionally when googling turnover, or the circulation of capital, I do feature near the top. Anyway, the more important development is their use of turnover now to refine the national accounts.

The turnover formula is based on the relationship between intermediate inputs and final sales which together form gross output or *output* as the ONS describes it.

Gross value added = output minus intermediate consumption.

Section 7 then goes on to explain what defines output and what defines intermediate consumption which I find concise and elegant. The ONS then goes on to explain the inverse relationship between intermediate consumption and final sales: *"An increase in output between periods (other things equal) causes gross* *value added to rise, while an increase in intermediate consumption similarly causes value added to fall."* Thus an inverse relationship between the two exists and it is that relationship which modifies turnover. Note the implicit confirmation of this when the ONS uses the term *turnover between periods*, periods being one turnover period. "*Most indicators in the short-term measures are **measuring changes in turnover** and output as a proxy for changes in GVA; therefore, we assume that the intermediate consumption ratio by industry in 2020 held constant into 2021 and onwards, in other words, input costs as a **proportion of turnover** or output remain fixed.* (My emphasis)

The ONS is not seeking to isolate turnover itself but rather to investigate how turnover shapes GVA. The goal being to estimate GDP. I have made the point a number of times that an increase in turnover can only come about by an increase in intermediate sales (more sales) or a decrease in the value of final sales. Therefore, if both the output and turnover rate is known but not the intermediate side, it is possible to derive GVA by applying the previous turnover rate to that output. "*In the output approach, we do not have estimates for intermediate consumption (value of goods and services purchased to be used up in the production of goods and services), as such, we use turnover and output as a proxy for changes in gross value added*." Thus it is turnover that links output, or better still gross output or the 'value' of total sales, to the value of the final sale or GVA.

This vindicates my approach. The ONS is not providing us with actual turnovers because its primary goal is not the rate of turnover itself, but to use the rate as found in its input-output tables, to distill GVA. What it is doing is thus providing a corollary, namely that once turnover has been determined, and usually that rate is provided by the data from the previous year, GVA can then be solved using gross output. Gross output or total sales can be assembled quickly but laboriously. All it requires is to add up all the sales figures provided by corporations sorted by their industrial classification as reported in their financial accounts. The source data being the individual sets of accounts published either quarterly (the larger corporations) or annually (the smaller corporations).

Of course there is a weakness in the ONS's methodology because it assumes the turnover in the previous year can be applied to the current year. As my investigations have shown, often at a quarterly level, that is not the case as can be seen in Graphs 2 and 4 in this article. Turnovers, which are affected by a myriad of influences, do fluctuate between periods.

Whatever the case, my statement that the relationship between intermediate sales and final sales determines the structure of an industry or sector holds equally true for the national economy itself. For this reason I do welcome the introduction of turnover to the System of National Accounts. Now if only Marxist theoreticians would adopt this as well and change their bad methodological habits.

Rolling back the green agenda just as summer begins to roil.

The corrupt and the greedy never have a sense of timing. This was exemplified by leader Starmer ditching his green pledge on the day that the *Copernicus Institute* revealed January 2024 to be the hottest January ever, and that over the course of the year ending this January, average temperatures had bust through 1.5°C.

A few years ago, in the aftermath of the pandemic, corporations boasted about their GSE pledges and their environmental stance. No longer would their corporation exist only to provide steak for their shareholders, but now all their stakeholders would benefit. This included minorities, the community, and the planet. In fact these pledges could have been drafted for them by the CCP leader Xi Jinping who swears that is exactly what his party stands for.

These corporate pledges did not last very long. At the first hint of manufactured unpopularity and resistance by shareholders, these corporations are only too happy to abandon these profit interfering pledges. Some of the largest financial entities such as Blackrock, JP Morgan and State Street are scaling back their green commitments.

The reason is not hard to find. "*The blended net profit margin for the S&P 500 for Q4 2023 is 11.1%, which is below the previous quarter's net profit margin of 12.2%, below the 5-year average of 11.5%, and below the year-ago net profit margin of 11.2%."* And based on earlier analyses by FactSet, were we to exclude the *Magnificent Seven,* the fall would be closer to 4% than the 1% registered this quarter. Clearly the years of plenty following the pandemic are over for good, and with the old normal back, corporations are back to their bad habits, scrambling to protect their margins.

The likely turning point for the move against the green transition was COP 28 which was held in Dubai and led by Sultan al-Jaber, chair of Abu Dhabi National Oil Company (Adnoc). This was the equivalent of holding an *Alcoholics Anonymous* meeting in a bar with drinks on the table led by the bartender. As expected, little was achieved at this COP out meeting except the weak pledge to transition away from fossil fuels which the media lauded as groundbreaking, except that it will do little to stop corporations breakingground to extract fossil fuels.

Then of course there is the burden of the transition on households and small producers, as well as the growing debacle with electric vehicles reliant on fixed batteries and single point charging. The costs have become unbearable due to governments failing to adequately reduce them, because the funds needed to for this have been diverted towards war preparations instead. And all this foolish warmongering is occurring in the run up to the exceptional summer of 2024.

As expected, the emboldened and opportunistic Alt-right have reached for the megaphone provided by the fossils to encourage public disaffection. They have intensified their denialist propaganda trying to make the point that the green transitioning is a waste of money, and if not a waste of taxpayers' money, then an excuse for the large corporations to grow fat on subsidies. The irony of course is that it is a actually a section of the corporations - the fossil fuel and allied sector - beneficiaries of $7.1 trillion in subsidies, who have grown fat on subsidies, and the Alt-right have the gall to claim that subsidies for the transition are a waste of money. $7.1 trillion p.a. would be sufficient to fund the greening of the world economy.

If anything good will come out of summer 2024 it will be the silencing of these rancid demagogues. After the devastating heat in the offing and the violent weather it will produce, only a masochistic fool will return to denialism. But it will be too late for them. Once we seize power, no doubt a revolutionary workers' state will pass retrospective legislation punishing all those who engaged in denialism, either for profit, or knowingly or recklessly. Sixty five years of denialism, sixty five years of ineffective action which has put the whole planet at risk, cannot be ignored or forgotten. Corrugated iron prisons without shade in the middle of the Sahara seems an appropriate form of incarceration.

Conclusion.

The days of profit gouging and hoarding of labour are over. Capitalism is heading back to its traditional badlands – the land of cost cutting and labour shedding – where no green roots are found, only weeds belonging to the genus: repressive legislation. In this article I sought to show that compressing margins and decelerating turnovers are incompatible with costly climate redress but not with funding war battle dress. A political crisis is brewing on all fronts, it’s just that the ruling class has not appreciated its magnitude, and when a class loses perspective, it is soon lost to history.

Brian Green, 17th February 2024.