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Can capitalists afford recovery? A 2018 update (2 charts)

October 26, 2018 [Editor](#) [Leave a comment](#) [Go to comments](#)

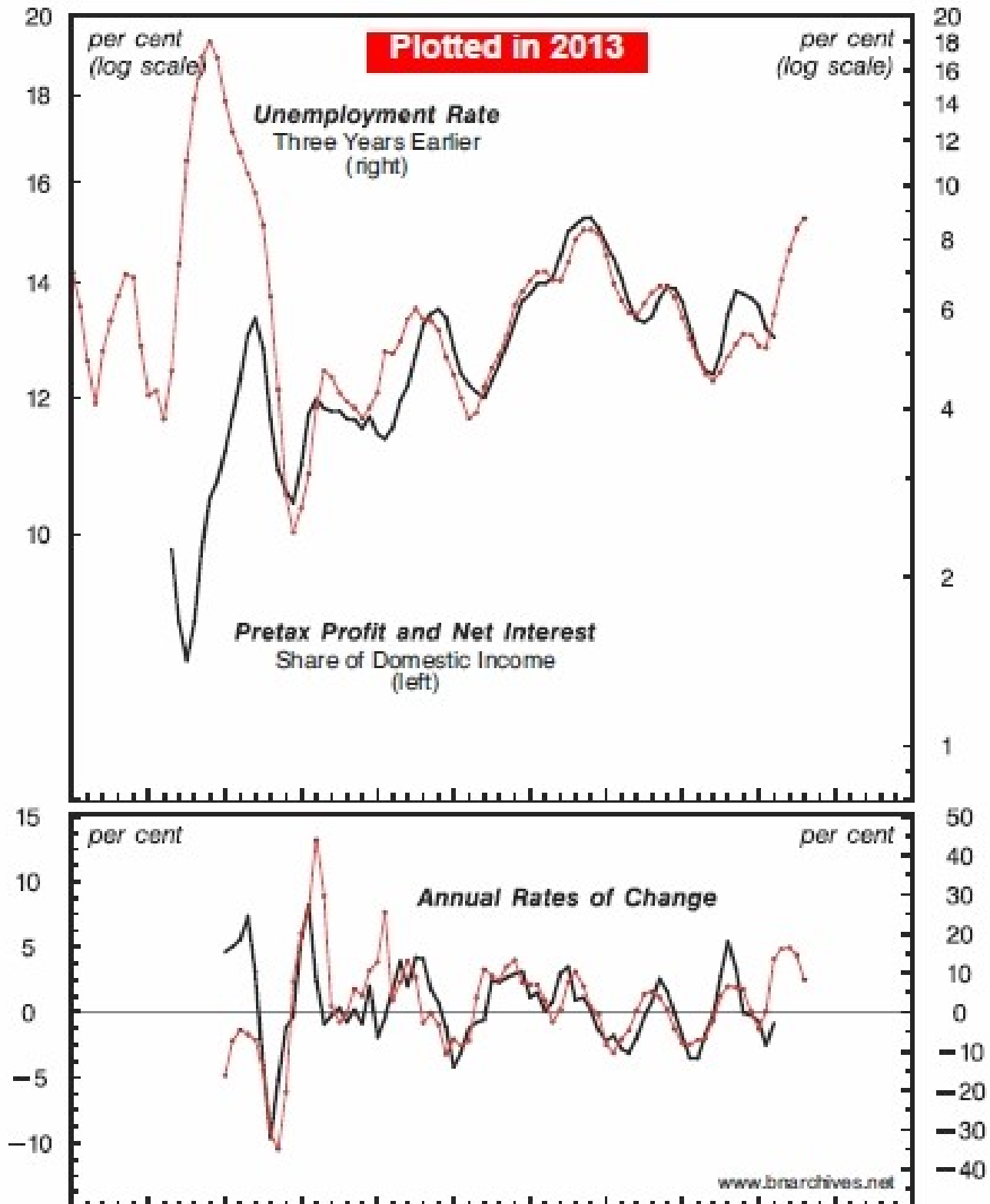
from **Shimshon Bichler** and **Jonathan Nitzan**

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 first 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.

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



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 2012 for profit and interest and 2013 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 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]).

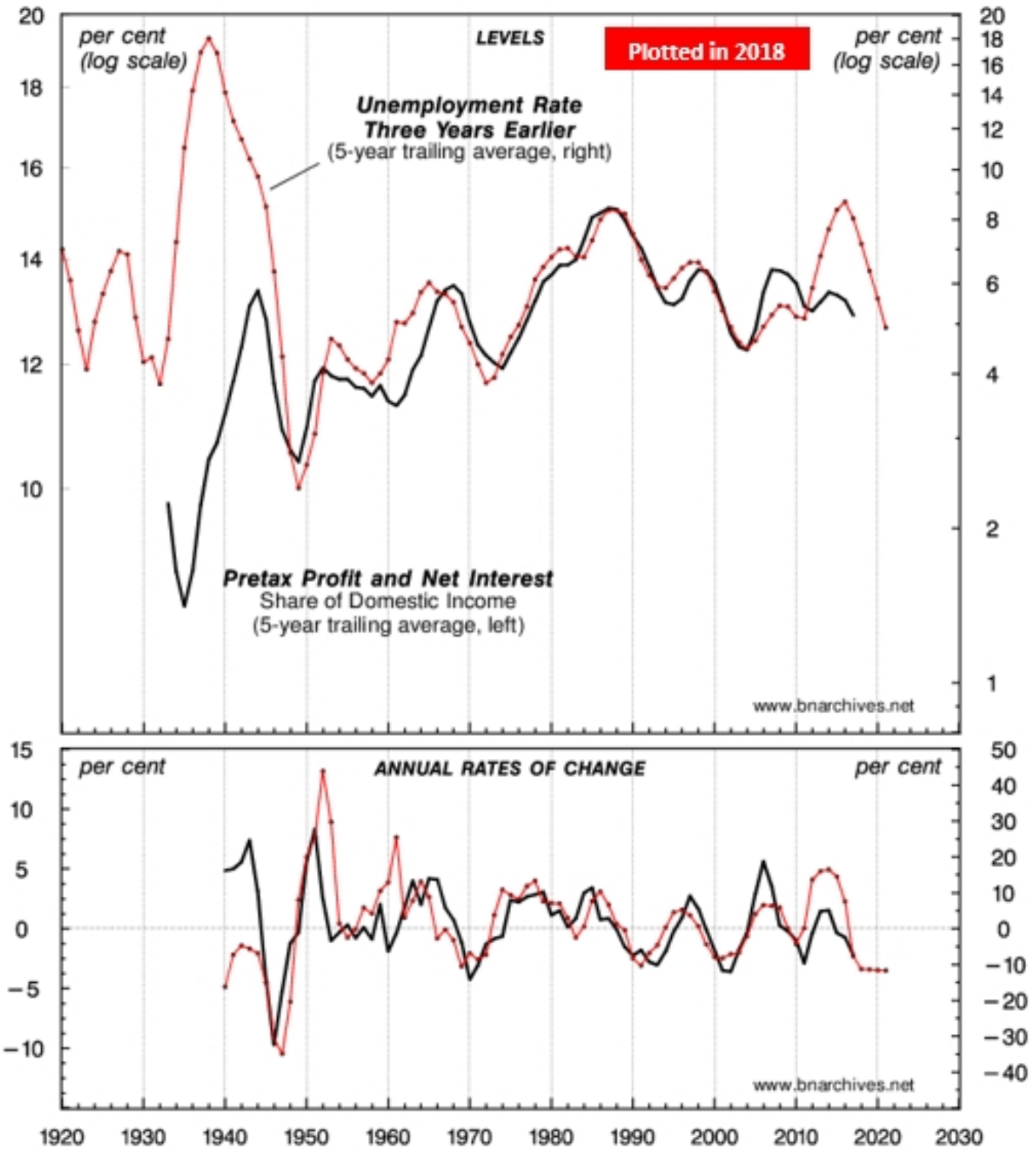
A Leading Indicator

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 second, the up-to-date figure, 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.

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



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.

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.

References

Bichler, Shimshon, and Jonathan Nitzan. 2013. [Can Capitalists Afford Recovery? Economic Policy When Capital is Power](#). *Working Papers on Capital as Power* (2013/01, October): 1-36.

Nitzan, Jonathan, and Shimshon Bichler. 2014a. [Can Capitalists Afford Recovery? Three Views on Economic Policy in Times of Crisis](#). *Review of Capital as Power* 1 (1): 110-155.

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1. [jayarava](#)

October 27, 2018 at 10:14 am

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What the new graph shows is that the correlation that emerged after WWII is getting weaker. Unemployment *was* a highly reliable leading indicator from ca. 1945-2005... but it's not anymore. Something changed after the global financial crisis to decouple unemployment from income share.

It might have something to do with the decoupling of wages from employment levels during the same period. The new power of globalised capital to force down wages even in times of unemployment is indicative of a fundamental change in the relationship between labour and capital.

If you just plotted the last 10 years, what would the p value be?

o [Jonathan Nitzan](#)

November 2, 2018 at 11:55 am

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See <https://rwer.wordpress.com/2018/11/02/can-capitalists-afford-recovery-a-closer-look/> for a closer look.

2. Yok

October 27, 2018 at 1:33 pm

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What's the mathematical equation for greed and selfishness?

3. [Ken Zimmerman](#)

November 5, 2018 at 11:34 am

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There's an old story about post-Renaissance music that goes like this. Bach created it, Beethoven perfected it, Stravinsky destroyed it. Capitalism has a similar history. Adam Smith's 1776 "Wealth of Nations" was the first systematic description of a group of economic arrangements that had been around for over 100 years. Capitalism began by being about money, invested or lent and later assets such as money, monetary values, commercial paper, commodities, and manufacturing plant, always only in regard to the profit that they should yield, instead of being consumed or hoarded (saved). Adams explained and justified this focus. Capitalism emerged out of the Enlightenment, or rather out of war fought to stop or support changes coming out of the Enlightenment. Supporters of the Enlightenment are concerned with human rights, freedom, peace, and prosperity. Governments during the Enlightenment opposed and fought against all of these. Montesquieu, among others suggested instead that trade was an alternative route to these goals. Trade was considered a civilizing force that contributed to overcoming barbarism, calming aggression, and refining manners. Others soon chimed in arguing that the common good is promoted by the reasonable pursuit of self-interest. Markets displaced the war of passions with the advocacy of commercial interest. Commerce promotes societal virtues such as diligence, discipline, persistence, and up-rightness. Capitalism (markets) would increase prosperity and help create societies with better cooperation, without arbitrary government intervention, with more respect for liberty and individual responsibility, as well as more focus on resolving conflicts through compromise instead of war. Smith's book was one of the key elements in moving capitalism to the consensus position in England and much Northern Europe.

Smith's ideal never happened. First, from the start there has been a direct relationship between capitalism and violence. Capitalism needed resources and money to "make their profits." They often handled opposition to getting these violently. Privatization of common land and the capitalist takeover of privately-owned land and resources are central here. And here is where capitalists made the deals for governments to be their "strong-arm men" to push through such transactions. A relationship that continues today. Early on it became clear that wherever there was a massive assertion of capitalism, social inequality increased, even if living standards overall also rose. But Smith's greatest error was that he created an economic order that fit near perfectly with a society of reasonable individuals, as imagined by Montesquieu and other spokespersons for the Enlightenment. Smith was convinced single individuals would best evaluate their interests for themselves. That reasonable order was possible without patronizing from an authoritarian state. From his own experience he denied and distrusted the wisdom of governing authorities and the reliability of tradition. In this Smith was indeed an Enlightenment scholar. For Smith, capitalism was created by the masses for the masses. It was not imposed on them by a narrow group of elites. Capitalism was also a practical critique and rebellion against very old economic and social injustices, and a promise of just reward for successful effort. As a creator of prosperity as well as liberty, capitalism would help and appeal to everyone – merchants, entrepreneurs, intellectuals, and of course all us "ordinary" people.

And for a time, this sort of worked as described by Smith. That is, until industrial capitalism arose (like Stravinsky) in the 19th century and destroyed it completely. And today financial capitalism has ended any hope of the return of Smith's capitalism. Capitalism plays no part in the world's economic arrangements today. Thus, citing Smith to defend what's happening today or has happened since 1815 is not just wrong, it's either a deliberate effort to deceive or a sign of the analyst's ignorance.

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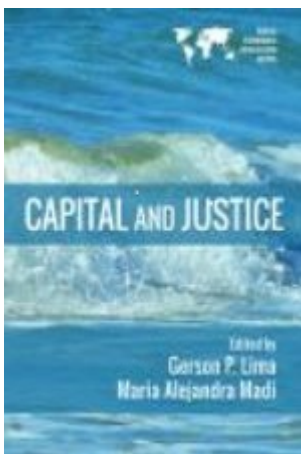
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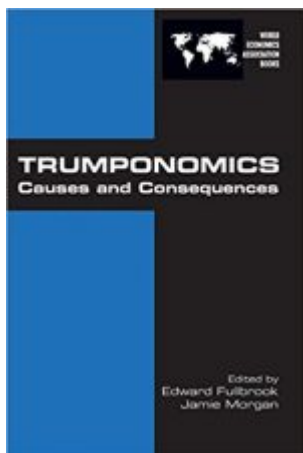
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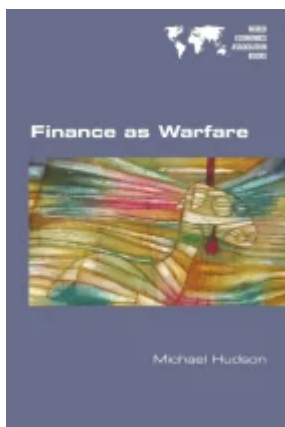
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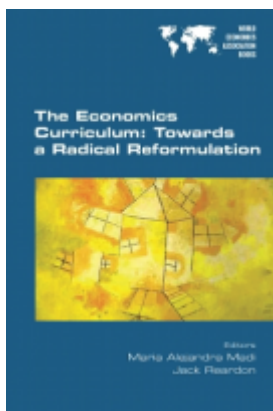
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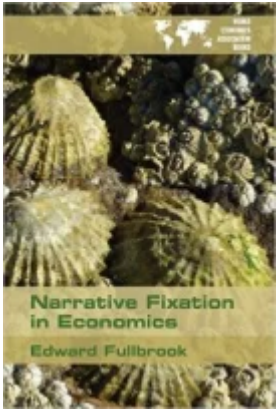
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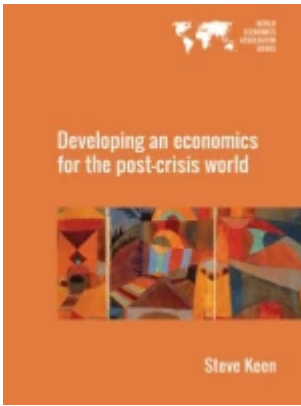
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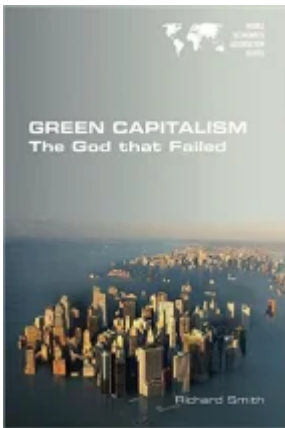
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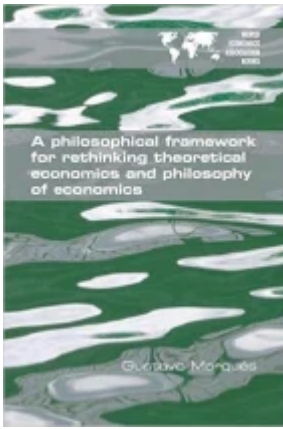
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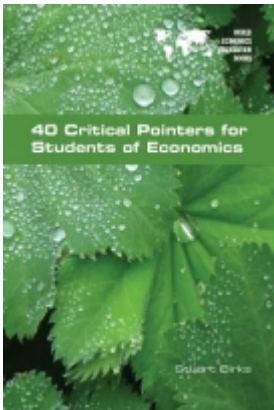
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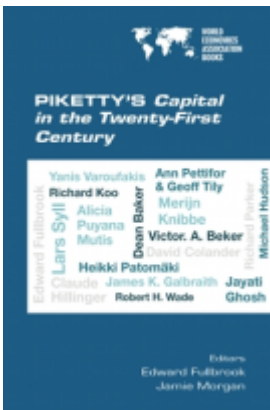
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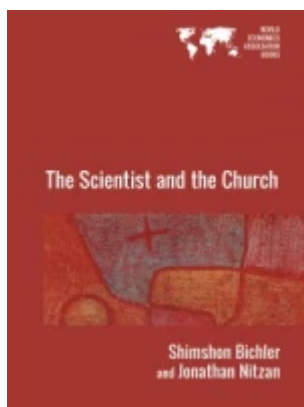
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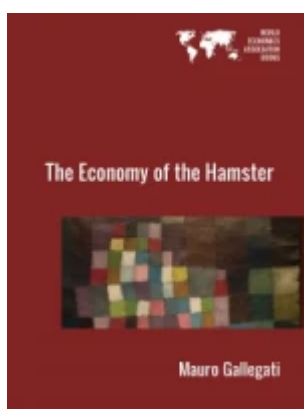
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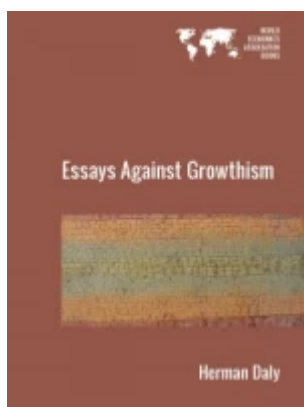
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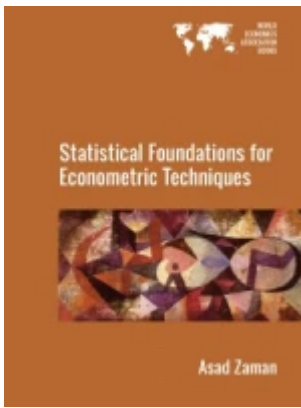
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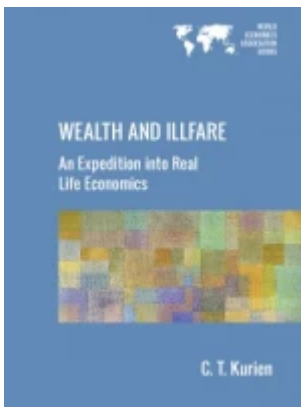
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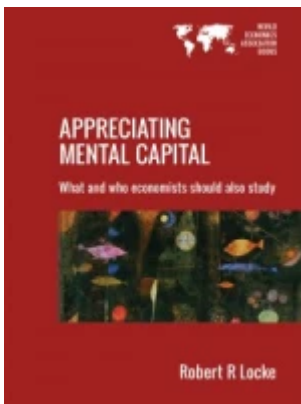
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