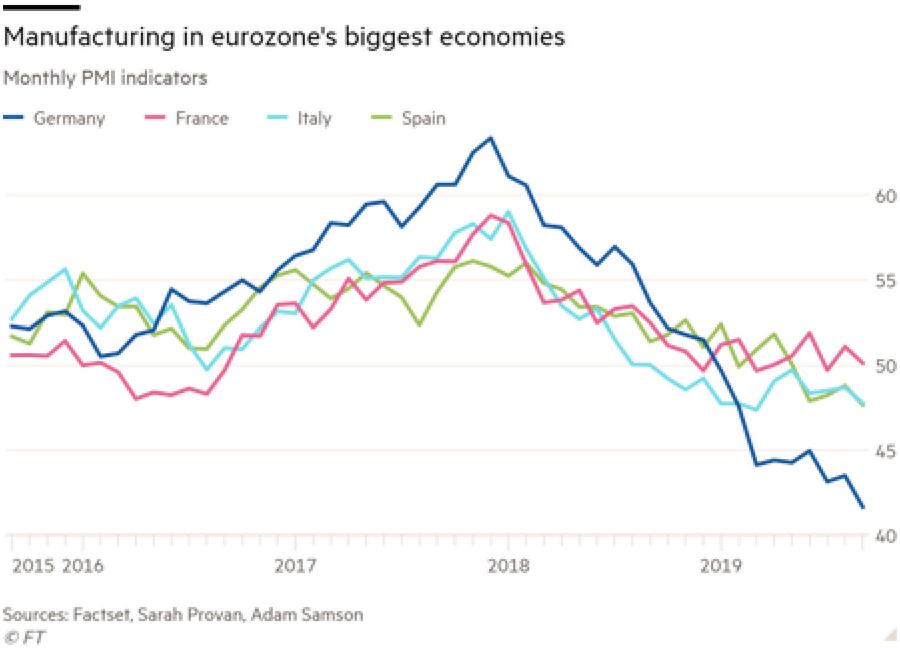
Michael Roberts Blog

blogging from a marxist economist

A global manufacturing recession

As we enter October, the global recession is with us – in manufacturing. The PMI manufacturing activity indexes for most of the major economies are below 50, the threshold for expansion or contraction. These are only surveys of corporate managers asking them about production, sales, employment etc. But PMIs have been reasonably accurate indicators of actual industrial and manufacturing output, the data for which follow somewhat later.

In September, the manufacturing PMI for the Eurozone fell to its lowest level since the euro debt crisis of 2012, led by Germany but followed by the others. So much for the success of Mario Draghi's reign as ECB President.



(https://thenextrecession.files.wordpress.com/2019/10/man-1.png)

In Japan, it is a similar story. Sentiment among Japan's large manufacturers fell to its lowest level in more than six years in the third quarter, according to a key survey conducted by the Bank of Japan. And Japan's manufacturing PMI is back to the level of contraction in the sector last seen in the mini-recession of 2016.

Japan manufacturing PMI

(https://thenextrecession.files.wordpress.com/2019/10/man-2.png)

Even in the US, the manufacturing recession has arrived. The Markit manufacturing PMI is hovering just above 50, but that is a lower level than in 2016. And the US ISM manufacturing PMI in September fell to its lowest level since the Great Recession in 2009.

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And of course, pre-Brexit Britain's manufacturing sector has already been 'in a ditch', to use PM Boris Johnson's phrase, for several months.

(https://thenextrecession.files.wordpress.com/2019/10/man-4.png)

To complete the G7, Canada's PMI is also below 50.

And it is not just the G7 manufacturing sector that is contracting. The following countries are recording contractions in manufacturing activity: Malaysia, Mexico, New Zealand, Poland, Russia, Singapore, South Africa, South Korea, Sweden, Switzerland, Turkey, Taiwan

And the following countries have an outright year on year fall in actual manufacturing output: Australia, Brazil, Canada, Chile, France, Germany, Greece, Italy, Japan, Netherlands, Portugal, South Korea, Turkey, the UK, and also the US.

And as for the fastest growing major economies in the world, China and India, they are both experiencing their slowest real GDP growth rates for over a decade, while their manufacturing sectors are just above the water line.

The slump in manufacturing is partly the result of general slowdown in investment by capitalist economies and partly the result of the intensifying trade war between the world's two largest manufacturing economies: China and the US. The trade war is acting as a trigger for a recession in manufacturing across the globe. (https://thenextrecession.wordpress.com/2019/08/28/the-trade-trigger/) Global trade was already slowing down before the trade war broke out and it had already led to casualties globally: for example, Argentina and Turkey. (https://thenextrecession.wordpress.com/2019/04/25/boom-and-then-bust/)

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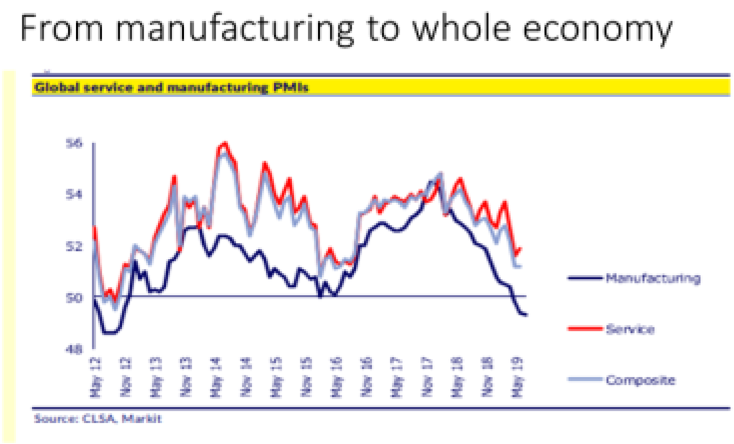
Both have seen a catastrophic collapse in production, foreign investment and in the value of their currencies. Turkey has been thrown in a deep overall recession. Argentina has been forced to default on its huge foreign debt payments. As the country heads to a general election this month, bond holders are desperately trying to find ways of avoiding a severe 'haircut' on their holdings. (https://www.ft.com/content/61a8b398-e3b2-11e9-b112-9624ec9edc59)

But so far, the recession is limited to the manufacturing sector. And manufacturing constitutes no more than 10-40% of most economies. The so-called services sector that includes retail, financial services, business services, real estate, tourism, 'creative industries', etc continues to keep its head above the water in most G20 economies. There is not one G20 economy with a services PMI below 50.

And this why an economy like Greece, which was devastated in the global recession and euro debt crisis, is now able to report a modest 2% a year growth in GDP. Tourism and leisure services, a key component of the Greek economy, continues to expand. But a 2% growth rate is not much after a 25% contraction during the crisis. The Greek recovery has been weak. Five years after the 1933 nadir of the Depression, US GDP per capita had risen by 35 per cent. Five years after the depths of Argentina's 1998-2002 crash, GDP per capita was up by 45 per cent. But from 2013 to 2018, Greece's GDP per capita rose by less than 6 per cent. Indeed, Oxford Economics predicts Greece won't recover to its pre-crisis GDP levels until 2033! – and that assumes no global slump in the meantime. And if the global services sector hits the wall, then Greece will plunge back into recession.

The question is whether the services sector will follow the manufacturing down into a slump. Some say not because manufacturing is a much smaller sector.



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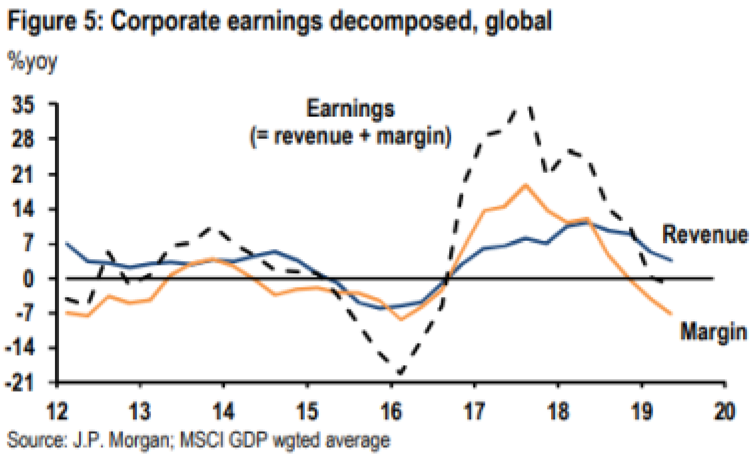
But that argument does not recognise that many services sectors depend on manufacturing for their own expansion. The spillover from a manufacturing slump has usually been significant in previous recessions. If global employment growth should weaken or stop, workers' purchasing power will wane and the services sector will start to suffer as well. Employment depends on the willingness of capitalist companies to invest and expand. And investment and expansion depend on the profitability of expected investment. Capitalists gauge that by current profitability – unless they take a risk.

So what is happening to global profits? Well, JP Morgan economists have just published a full analysis of global profits (unfortunately this report is not available to the public). And they reckon that global profits in Q2 2019 have stalled. Each of the 10 sectors comprising the total market show a sharp slowing in profit growth, with half experiencing outright contractions in profits over the past year (particularly materials and telecoms). Even those sectors that still have positive profits growth: retail, IT, financials and utilities, profits growth is dropping fast.

JPM reach the 'surprising' observation (that Marxist theory and previous empirical evidence could have told them) that *"the downshift in global growth over the past year has coincided with an equally impressive deceleration in corporate profits."*

(https://thenextrecession.files.wordpress.com/2019/10/man-7.png)

The stagnation in corporate profits globally is still not as bad as the 2016 mini-recession, or of course in the Great Recession or the previous slump of 2001-2, but it is getting there. In particular, JPM notes that profits growth has declined to zero because profit margins are being squeezed – in other words, the costs of labour (more workers and higher wages) are not being compensated by increased value – the rate of surplus value is falling – a result that JPMorgan reckon *"has historically preceded the start of recession dynamics."*



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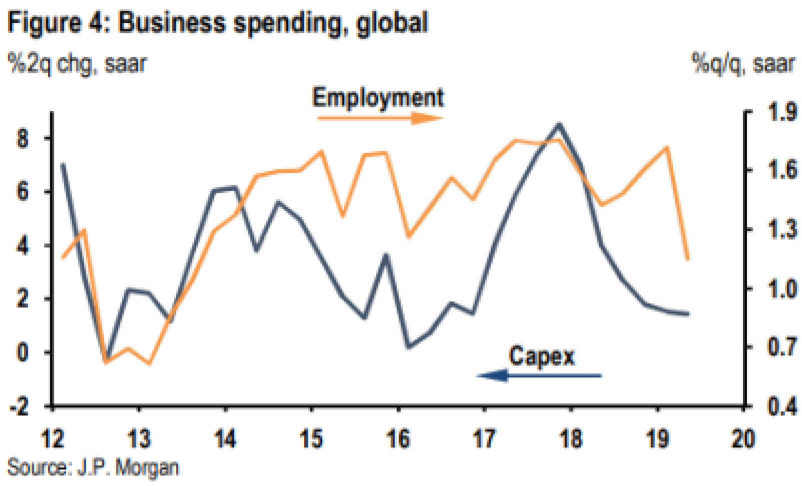
JPM Morgan cites the trade war as the trigger for this and makes the point that business sentiment (the PMIs) are falling in manufacturing because of the profits squeeze, not vice versa. But the trade war *"could also be an ominous portent of weaker earnings yet to come."*

As Marxist theory would predict, slowing or falling profits will eventually mean slowing or falling business investment, and JP Morgan agrees. *"The slump in business profits and business sentiment is taking a toll on capital expenditures. Global capex growth has slowed substantially from a six-year high in 2017 to a near stall as of 2H19. It likely also is a contributing factor in the more recent pullback in job growth. The risk is that slowing labor income growth weighs on consumer spending, which then feeds back into business earnings and hiring."* Exactly.



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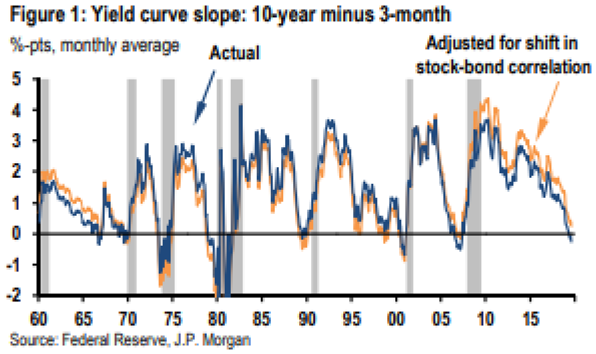
JPM remain optimistic that rising productivity growth will turn things around. But that seems wishful thinking if investment keeps falling.

In the past I have highlighted some other key indicators (apart from profits) that can predict a coming outright recession. The most famous one is the so-called inverted yield curve on bonds. I have explained how that operates in a previous post. (https://thenextrecession.wordpress.com/2019/08/19/recessions-monetary-easing-and-fiscalstimulus/)Suffice it to say now, that when the yield curve on bonds inverts (and yield on longer maturity bonds fall below yields on short-term bonds) and stays inverted, then a recession follows within a year. The US curve has stayed inverted since May.



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Another indicator is the price of industrial metals, particularly copper, a metal that is used across the board in all sorts of production. A fall in its price would indicate a slowdown in investment and production in many industries. In the mini-recession of 2016, the copper price fell to about $200/lb. In the Great Recession, it fell to $150/lb. Having risen to $320/lb in early 2018, it has now fallen back to $250/lb.

(https://thenextrecession.files.wordpress.com/2019/10/man-10.png)

The world capitalist economy is in a manufacturing recession now, but there are important indicators that the rest of the economy will join manufacturing soon.

This entry was posted on October 1, 2019 at 3:03 pm and is filed under capitalism, economics, Profitability. You can follow any responses to this entry through the RSS 2.0 feed. You can leave a response, or trackback from your own site.

68 Responses to "A global manufacturing recession"

Boffy Says:
October 1, 2019 at 3:39 pm | Reply
Not quite. PMI's are a good indication of what is going to happen to sectors of the economy, but they are not the measure of where those sectors are currently. Its an indication that manufacturing is likely to experience negative growth in the next three months. That is not surprising given that

Trump's trade war continues to be stepped up month by month, and has seriously depressed global trade.

It has obviously affected Chinese growth, because that is where most of his tariffs have been aimed. It has slowed US growth, because Chinese retaliation has hit US agriculture and other sectors, but it has also affected US growth because US imports of chinese goods, such as steel have become much more expensive as a result of the tariffs, which causes a Tie-up of Capital, and a rise in the value of constant capital, causing a rise in the value composition of capital, causing a fall in the rate of profit. As Marx notes this is completely different to his law of the tendency for the rate of profit to fall, which arises on the basis of a fall in the value composition of capital but a rise in the technical composition due to rising social productivity.

The hit to the Chinese economy has also caused a hit to the German economy, and particularly its manufacturing sector, because a lot of German manufactured goods, such as cars go to China. A hit to Germany as the EU's largest economy, obviously affects the rest of the EU economy. The EU economy is also suffering from the effects of Brexit, which has the same reactionary nationalist roots as Trump's trade war, reflecting an attempt by small capital to rewind the clock of capitalist development. Its most dramatic effect is on the UK economy even before the disaster of Brexit is fully felt on he UK economy. Again as a large economy inside the EU it also impacts EU growth.

But, of course, Trump's global trade war does not just consist of tarriffs etc. imposed on China. he has imposed 25% tariffs on EU steel and aluminium too, and other tariffs and threats of tariffs on other manufactured goods such as cars. He has also imposed sanctions on Russia, and on Iran, which also affects EU and other economies exports, as the US uses its control of global money flows to prevent such trade under threat of sanctioning companies from these other countries that continue to trade.

Under such conditions its surprising that trade and manufacturing has not been hit worse. But, the truth remains of course, that manufacturing amounts to less than 20% of GDP for most countries, with 80% being accounted for by services, and so far even the PMI's for services continue to show growth. Services PMI's are around 52, with anything over 50 representing continuing expansion.

So, even despite all of the political crises and impacts on trade and growth, the global economy continues to grow, particularly in its latest most dynamic area in Africa, which seems set for further expansion following the creation of the African Continental Free Trade Area last month, comprising 54 countries and 1.3 billion people aiming at creating an African equivalent of the EU. In the last ten years, 6 of the top 10 fastest growing economies have been in Africa, with those some of those economies having grown at around 10% p.a.each year for the last 20 years.

So, we ares till far from a technical recession let alone a slump, and given that the biggest cause of this slowdown can be seen to be from temporary political causes, we can expect that once those political crises are resolved one way or another, trade and growth will increase rapidly. Even if those political crises are not resolved in the near term, we can expect that it will simply result in trade flowing through different channels. Already in Britain, for example, companies are dealing with the uncertainty of Brexit that continues, by taking the decision to move their operations to Europe, China is buying agricultural commodities from other countries than the US, and finding markets for its manufactures in countries other than the US.

mandm Says:
October 2, 2019 at 6:38 pm | Reply
Aren't political crises caused by economic crises?

Will China be permitted its expansion (beyond its ambivalent comprador status) capitalistically? Probably not…or will it revert to "reactionary" nationalism (socialism)?

Will Russia attempt to reconstruct its deconstructed industrial infrastructure? Obviously not.

Are (1) the fascist regimes (a la pre-ww2) surrounding Russia and (2) the US warships in the China sea–mere window dressing? Will the US/NATO fomented processes of primal accumulation in Africa really open space for the neoliberal imperial order to grow to its full, ecologically and humanly destructive potential? even as it seems to be falling apart? God forbid…

Boffy Says:
October 3, 2019 at 12:09 pm
"Aren't political crises caused by economic crises?"

No that's crude economic determinism.

"Will China be permitted its expansion (beyond its ambivalent comprador status) capitalistically?"

You mean beyond having already gone from a poor peasant economy to becoming the second largest economy on the plant??? You mean beyond challenging the US strategically and militarily in the South China Sea.

How exactly do you propose that its expansion is going to be stopped? Was it possible for Britain to prevent the expansion of its colony America, for example?

"Will Russia attempt to reconstruct its deconstructed industrial infrastructure? Obviously not."

Why?

"Will the US/NATO fomented processes of primal accumulation in Africa really open space for the neoliberal imperial order to grow to its full, ecologically and humanly destructive potential?"

You don't seem to have been keeping up. Most of the capital accumulation going on in Africa is internally generated from the production of surplus value, but the major external impetus comes not from US/NATO, but from China!!!

mandm Says:
October 3, 2019 at 5:09 pm
Well, it seems you do not take the military encirclement of Russia and China and threats of war (and NATO as the military arm of the old imperial system-newly digitalized) seriously.

Who do you think has been fomenting these endless wars? including all the under-reported bloody regime change conflicts taking place all over Africa? China is there, but unwelcome. Perhaps you envision a new "G9" alignment, composed of Russia and China, the other 6 satraps (three of them still under occupation), and the US?

You paint a rosy picture (from capital's point of view). But actual conditions for the majority of working people in all "emerging nations" remain deplorable, while worsening under unrelenting attack upon workers at the center of this decaying, unprofitable, destructive neoliberal world order.

Boffy Says:
October 4, 2019 at 6:32 am
The first part of your response is just crude anti-Americanism to go with your crude economic determinism, and seems to be apologism for the right-wing reactionary, kleptocratic regime in Moscow, along with the Stalinist regime in Beijing. Both equally far from socialism.

"But actual conditions for the majority of working people in all "emerging nations" remain deplorable, while worsening under unrelenting attack upon workers at the center of this decaying, unprofitable, destructive neoliberal world order."

Is just a modern day equivalent of the old Stalinist Varga's Law of the 1950's. The condition of millions of workers in developing economies is terrible, but much better than it was prior to capitalist development of those economies.

Your approach is just reactionary Sismondism of the kind attacked by Marx, and by Lenin in its latter version of Narodism.

Anti-Capital Says:
October 2, 2019 at 9:26 pm | Reply
The glass is always half-fully on planet Boffy, where the sun is always so bright, and the sky so cloudless, you have to wear sunglasses indoors:

" we can expect that once those political crises are resolved one way or another, trade and growth will increase rapidly. Even if those political crises are not resolved in the near term, we can expect that it will simply result in trade flowing through different channels. Already in Britain, for example, companies are dealing with the uncertainty of Brexit that continues, by taking the decision to move their operations to Europe, China is buying agricultural commodities from other countries than the US, and finding markets for its manufactures in countries other than the US."

Of course, whether the glass is half full or half empty often depends on whether you're pouring or drinking.

Over on planet earth, the WTOers are not so care-free, because it looks to them that what's being poured into the cup is shrinking by half in 2019:

From the WTO Press release:

WTO lowers trade forecast as tensions unsettle global economy

"Escalating trade tensions and a slowing global economy have led WTO economists to sharply downgrade their forecasts for trade growth in 2019 and 2020. World merchandise trade volumes are now expected to rise by only 1.2% in 2019, substantially slower than the 2.6% growth forecast in April. The projected increase in 2020 is now 2.7%, down from 3.0% previously. The economists caution that downside risks remain high and that the 2020 projection depends on a return to more normal trade relations."

vk Says:
October 3, 2019 at 5:13 pm | Reply
Yes, the world is still technically growing.

But it is well bellow the 4.5% necessary some specialists believe is necessary to improve the lives of everybody in a capitalist system. 2.5% won't reduce poverty — not now, not ever.

To make things worse, of those 2.5%, China (which is not a capitalist economy), corresponds to 30% of these. So, actually, the capitalist world is growing just 1.6%.

You can argue capitalism has guaranteed its survival, but the capitalist dream of ending poverty and hunger, of "lifting all boats" is definitely gone.

Boffy Says:
October 4, 2019 at 6:37 am
Yes, it is still growing and estimates still see growth next year too. Since when has reducing poverty been the aim of capitalism? the aim of capitalism is capital accumulation via the creation of profits for reinvestment!

If you don't think China's economy is capitalist then I don't know what you think it actually is!

"You can argue capitalism has guaranteed its survival, but the capitalist dream of ending poverty and hunger, of "lifting all boats" is definitely gone."

Why just because Trump's trade war and Brexit has caused a temporary slow down in trade and thereby growth. That hardly seems a logical let alone sustainable argument. After all those African economies where the biggest challenge for raising people out of property exists are the ones where growth has continued at around 10% p.a.!

rojaspedro1959 Says:
October 1, 2019 at 5:35 pm | Reply
…."JPM reach the 'surprising' observation (that Marxist theory and previous empirical evidence could have told them) that "the downshift in global growth over the past year has coincided with an equally impressive deceleration in corporate profits."…..

There is no evidence of the causal line.

The data does not give reason to Marxism. The causes may be other.

Wal Buchenberg Says:
October 2, 2019 at 5:57 am | Reply
The crisis is developing due a faltering industrial production, not from Trump, not from Brexit.
Industrial production in Germany from the first quarter of 2018 to the second quarter of 2019: minus 7 percent
of which car production: minus 24 percent.
https://marx-forum.de/Forum/gallery/index.php?image/1117-industrie-und-autoproduktion-2018-2019-ii/

Boffy Says:
October 3, 2019 at 3:29 pm | Reply
No, the faltering industrial production is arising from the effects of slowing trade, which is being caused by Trump's global trade war, and Brexit. But, in fact, if you look at global trade and output, even now what is being seen is only a slowing in the growth, i.e. the second derivative, and not an actual negative growth, i.e. an actual reduction in the size of economies.

The figures for Germany illustrate the point, the biggest hit to its industrial production coming from cars. Where does it sell most cars? China.

Wal Buchenberg Says:
October 6, 2019 at 7:26 am

The facts say otherwise:
1. Trump can not be guilty of the collapse of the German car industry because there are (still) no higher US tariffs on German cars.
2. The Chinese tariffs on German cars have not changed either. Anyway, the mass of German cars in China is made there in the country.
3. The Chinese car market is decreasing overall.

Conclusio: There is an overproduction of capital in the car industry (overcapacity).
This depresses the rates of profit and that is the heart of the problem for capitalists.

Wal Buchenberg, Hannover

Boffy Says:
October 6, 2019 at 1:10 pm
Trump's tariffs on China have slowed the Chinese economy. The slowdown in growth in China, has hit the import of German cars into China. I also didn't just say Trump, in relation to Europe. Brexit is having a similarly depressing effect. But Trump is also proposing swingeing tariffs on European cars too, in addition to the 25% tariffs imposed on steel and aluminium. So, if you were a German car maker would you be looking to invest additional capital seeing the potential for a further intensification of the trade war with China causing a further slowdown, and with the added prospect that your exports to the US will be hit by 25% additional tariffs?

Dionysios Perdikis Says:
October 2, 2019 at 9:36 am | Reply
Could it be that services are capturing value produced in manufacturing in developing economies?

Or is it just a time delay issue?

ucanbpolitical Says:
October 3, 2019 at 10:26 am | Reply
Spot on. GDP which is based on the value of final sales only gives a partial view. Gross Output data which represents total sales and therefore intermediate sales between sectors gives a much better view. Much of the value attributed to services, described by the statistical bureaus as value added actually represents transferred value from industry. For example all the value attributed to Facebook and the bulk attributed to Google, is advertising revenue which emanates from industrial corporations. Secondly, the value attached to wholesale and retail emanates from the price discounts given to them by the actual producers of the goods they circulate. Taking all this into consideration, and excluding government and the household sectors, industry produces about 55% of the value found in the economy. Its actually higher because of duplications caused by imputed sales. So yes, Michael is quite right to put the stress on industry, and Boffy is quite wrong to emphasise non-industry factors.

Boffy Says:
October 3, 2019 at 1:09 pm
"Gross Output data which represents total sales and therefore intermediate sales between sectors gives a much better view."

So, now you want to claim that value can be added by factors other than immediate labour! The reason GDP discounts intermediate production is precisely to avoid double-counting, which is what you have done.

Marx makes it clear in his analysis of reproduction that not one penny of value of constant capital goes into the value of final output of Department II, i.e. final output for consumption. It is comprised only of the new value added by Department I labour, plus the value added by Department II labour. The value of constant capital, i.e. the value of constant capital that comprises the rest of the value of total output, but which does not represent revenue, i.e. it is not consumed, is simply replaced on a like for like basis out of current production.

In Marx's reproduction schema,

Department I

c 4000 + v 1000 + s 1000 = 6000

Department II

c 2000 + v 500 + s 500 = 3000

The 2000 of c for Department II is intermediate production, but it is NOT a value of constant capital. As Marx makes clear there is not one penny of value of constant capital in this amount. It is entirely equivalent to the value of Department I (v + s). Of the 6000 of value of output of Department I, 4000 is the value of constant capital consumed in its own production, and reproduced from its own production. Not one penny of that 4000 of value of constant capital is contained in its 2000 of sales to Department II.

"For example all the value attributed to Facebook and the bulk attributed to Google, is advertising revenue which emanates from industrial corporations."

This is nonsensical, for the reasons I've given in another reply. here you want to have value being created by consumption rather than labour, and secondly, the implication of what you are saying is that the advertising executives hand over exchange-value, without getting an equal amount of value in exchange!

As far as merchant capital is concerned, as Marx sets out in Capital III, Chapter 17, the reason productive-capital makes these discounts is because it reduces its own selling costs, so that although merchant capital does not increase value production, it does increase the mass of realised profit, and, rate of profit, and by speeding up the circulation of capital, also raises the annual rate of profit.

"Taking all this into consideration, and excluding government and the household sectors, industry produces about 55% of the value found in the economy."

That is nonsense, and a figure only arrived at by double-counting intermediate production, and including the value of constant capital as value added rather than value transferred.

mandm Says:
October 3, 2019 at 8:09 pm
Marx's reproduction schema represents an attempt to analyze how capitalism reproduces itself in an isolated environment under ideal conditions (the way capital views itself)– laying aside consideration of use value and other historical material considerations–under which actual production takes place. Here, for simplicity's sake, the dialectical dynamics embedded in the concept of surplus value is laid to rest.

Marx would have agreed that these schema would not have been of much use in the analysis of the reproduction of the capitalist social order of late 19th century imperial England–let alone applied to our globally integrated economic/political (imperial) order, in which most department 2 industrial commodities are built up of discrete material components, each produced in separate ex-colonial nations, and each carrying and adding its "value" to the final product, expressed in the market price paid by the final consumer, who, for example, might possibly be your post-industrial exchange-value-creating advertising executive, who in exchange for the value his labors (in order to reproduce his absolutely indispensable and very material self) will consume the value created in 15 dependent "emerging" nations by very dispensable super-exploited workers…

Boffy Says:
October 4, 2019 at 6:49 am
Your assertions here are completely without foundation, as is the case with most of the assertions you make in your comments which appear without theoretical or empirical support.

Of course, Marx lays out the schema as ideal type models, but he does so for the purpose of identifiying the underlying relations that determine the actual social reproduction process.

"in which most department 2 industrial commodities are built up of discrete material components, each produced in separate ex-colonial nations, and each carrying and adding its "value" to the final product,"

If you think Marx wasn't aware of this process, and it isn't included in and central to his schemas of reproduction you clearly have not read Capital very carefully! I suggest you read what Marx has to say about the social division of labour!

Also your comments about "super-exploited" workers in "dependent" emerging economies shows that you both neither understand the process of economic development, being stuck in the old Stalinist/Third Worldist mantra about dependency and centre-periphery relations, and that also you have not read what Marx says about exploitation, where he shows that it is the workers in the more advanced countries that are exploited to a higher degree, because it is there, where the greater degree of fixed capital raises productivity, and reduces the length of the necessary working-day, causing the rate of surplus value to rise way above that in less developed economies, and where, because of the higher productivity, the labour of the worker in he developed economy counts as complex labour compared to the labour of the less productive worker in the developing economy.

To return to Marx's schemas, if you don't think they have any practical application in analysing actual capitalist relations in the real world, it rather makes you wonder why Marx might then have formulated them. It also makes you wonder why Lenin utilises them precisely to explain the process of capital accumulation in Russia, in response to Kravin!!!

mandm Says:
October 4, 2019 at 5:24 pm
My point regarding the schema being ideal was (1) in their being abstracted from the effect of use value and questions of class struggle affecting the rate of surplus value (which is assumed as constant); and (2) their non-applicability to capital accumulation and reproduction under imperial conditions (i.e. accumulation by political and military means, often by expropriation). Marx and Lenin also had some things to say about that… I wonder if that makes both of them "Stalinist"?

As I've said in the past, I admire your erudition, but your "economistic" application of "marxism" (sans historical materialism) invariably swoons into liberalism …while, politically, you seem stuck in the 1950's ideological wars between marxists (excuse the 3rd world, stalinist mantra) at the imperial centers…from which neoliberal capitalism (endless war on nature and humanity) emerged the victor. So, congratulations!

Boffy Says:
October 6, 2019 at 1:14 pm
Mandm,

And I'm afraid that your comments always contain words that I recognise, but not in any order that produces anything comprehensible. It seems just an endless succession of assertions, soundbites and mantras.

Its a bit like something a bot would string togther by concatenating assorted phrases.

Boffy Says:
October 3, 2019 at 12:25 pm | Reply
"Could it be that services are capturing value produced in manufacturing in developing economies?"

Absolutely not. GDP is a measure of new value added by immediate labour. The majority of immediate labour is now employed in service industry, i.e. 80% as against less than 20%. It is the immediate labour employed in service industry that is producing the vast majority of new value and surplus value.

This is the correct way to calculate the value created, as Marx sets out in his schemas of reproduction in Capital II, because otherwise you end up with double counting, which is what Ucan has done. Even worse is this,

"For example all the value attributed to Facebook and the bulk attributed to Google, is advertising revenue which emanates from industrial corporations."

So now its not labour which creates value but consumption!!! In other words, according to this its not the labour of Google workers in providing a service, i.e. an advertising platform that can be purchased by consumers, but the act of consumption itself!

Next we will be told that its not the labour of the farm labour growing corn that produces value, but the consumption of the gourmet that consumes it! Presumably all of the advertising executives who buy that advertising space on Goggle and facebook simply hand over exchange value, having obtained absolutely not value equivalent in exchange for it.

Marx dealt with all of those nonsensical kinds of arguments back in Theories of Surplus Value, Chapter 4, dealing with those then who thought that the Labour services of prostitutes and other service workers produced no new value.

Boffy Says:
October 3, 2019 at 12:31 pm
Incidentally, just to emphasise the point, precisely because the vast majority of labour is employed in service industry rather than manufacturing industry, the only way that more new value could be being produced in manufacturing is if that labour were complex labour compared to labour in service industry. It means that labour in manufacturing would have

to produce more than 4 times as much new value per hour as service industry labour. The nature of service industry labour makes that highly unlikely, in fact the opposite is likely true.

Anti-Capital Says:
October 3, 2019 at 5:07 pm
"For example all the value attributed to Facebook and the bulk attributed to Google, is advertising revenue which emanates from industrial corporations."

So now its not labour which creates value but consumption!!! In other words, according to this its not the labour of Google workers in providing a service, i.e. an advertising platform that can be purchased by consumers, but the act of consumption itself!"

Christ on a crutch; the profits captured by Facebook and Google are not solely, simply, nor in the majority the product of the labour of Google workers in providing a service.

Those profits are based on A PORTION of the TOTAL value thrown into the markets BY THE ENTIRE WORKING CLASS, and then distributed by those markets, based on size, efficiency, and "social necessity" of the various capitals.

This is, among other things, a reason why a socialist revolution has to be made by the working class, as a whole, as a class, binding all its sections to itself; and cannot be made by workers in so-called "strategic industries"– transport, manufacturing, acting separately, or in isolation.

For someone who claims to know so much Marx, to know so much about Marx, Boffy doesn't seem to be able to get the fundamentals right.

Dionysios Perdikis Says:
October 3, 2019 at 2:50 pm | Reply
Not all services are productive of surplus value. Many of them is only consumption of surplus value, and if capitalistically produced, then the capitalists involved realise value produced by the industries who buy their services. For a service to be productive of surplus value it has to produce use values, i.e., to modify the use value of a commodity, which is either a means of production or a means of consumption. Therefore, a capitalistically produced service of education or health modifies the labor power, others might be modifying means of production etc Instead, advertising, marketing consulting, lawyers, banks etc are services that aim to increase demand for/aid at realising the value of the commodities produced by the capitalists who buy those services, or that just circulate value in the form of money. Those services carry out only formal transformations that do not change at any way the use value of any final product. Without producing use value, they cannot be producing value either. If they do not produce value, they capture value produced by other capitalists. Finally, I am not sure at all that this 80% of labor force working in services is really a world-wide statistic… I explicitly considered value transfers from the industry of DEVELOPPING economies, to the services' industries of DEVELOPPED economies…

Boffy Says:
October 4, 2019 at 7:35 am
"For a service to be productive of surplus value it has to produce use values, i.e., to modify the use value of a commodity, which is either a means of production or a means of consumption."

But a use value does not have to be a physical thing, as Marx describes at length. It can be a non-material use value, i.e. a labour service. A singer who sings, produces no physical product, but they do produce a use value, and they are paid for it, in accordance with the value they create by their labour. I am of course, using Marx's method of assuming that commodities sell at their exchange values, rather than at prices of production. Like Marx I, of course, realise that in reality commodities sell at prices of production based upon the cost of production plus average profit, as a share of the total surplus value.

Similarly, as Marx sets out in TOSV, a prostitute does not modify any existing use value in providing a labour service to clients by their labour, but does thereby create new value. The determination of whether a surplus value is produced is not a function of producing a physical use value, or modifying some existing use value, which as Marx describes at length was the mistake made by Smith in his second definition of productive labour, but is whether the labour that produces the new value exchanges with revenue or capital.

Also like Smith you are confusing two different things which is the production of value and the production of surplus value. As Marx says, if I hire a cook to cook my lamb chops, their labour produces new value, but it does not produce surplus value. What we are discussing is the production of new value, and not necessarily surplus value. The gross product of an economy could rise as a result of the amount of new value being created increasing, which is shown in GDP growth, whilst the net product, i.e. the surplus product falls, and vice versa.

"Instead, advertising, marketing consulting, lawyers, banks etc are services that aim to increase demand for/aid at realising the value of the commodities produced by the capitalists who buy those services, or that just circulate value in the form of money. Those services carry out only formal transformations that do not change at any way the use value of any final product."

You have conflated two different things here. The merchant capital that deals with the circulation of capital certainly does not create new value, but to say that it consumes surplus value is false, for the reasons Marx describes. The reason productive-capital capital resorts to this merchant capital, including money-dealing capital, is because it reduces those circulation costs, and thereby enables a greater proportion of the produced surplus value to be realised as profits.

But you have conflated this with other actual value creating activity. If I have two identical chairs, and have someone paint one of the chairs. This might not affect the use value of the chair significantly. It simply acts to impress in the mind of the buyer that this chair is preferable to the other chair. It makes it possible to sell this chair at a higher price, and to thereby capture the value added by the labour involved in painting the chair. As Marx says in capital I, use value does not have to be real only perceived in the mind of the consumer. Similarly, if I employ someone who instead of employing labour to paint the chair, instead paints an image on the mind of consumers that it is in some way superior to the other chair, then this labour also thereby adds value, by creating this additional use value in the mind of the buyer.

This may well be labour that in a socialist society we would feel was unnecessary, but we are talking about labour here and now under capitalism.

"Therefore, a capitalistically produced service of education or health modifies the labour power, others might be modifying means of production etc"

These industries in healthcare and education are indeed major industries in all developed economies. The NHS is the biggest single employer in Britain. The labour employed in providing services by those workers is indeed a major source of new value and surplus value creation, as is the labour of workers employed in education.

But, even these are minor compared to the main service production, which is really a production of non-material commodities. For example, telecommunications, computer games and gaming platforms, and so on.

"Finally, I am not sure at all that this 80% of labor force working in services is really a world-wide statistic…"

It is certainly a statistic for all the developed economies, and for most developing economies a majority of new value and surplus value creation now comes from service industries rather than material production.

"I explicitly considered value transfers from the industry of DEVELOPPING economies, to the services' industries of DEVELOPPED economies…"

The opposite is the case, for a very simple reason. Service industry is labour intensive, whereas material production is capital intensive. Material production typically now employs a lot of fixed capital, mechanisation and robotisation, so that the labour employed is unskilled or semi-semi-skilled, which is one reason that such mature commodity production gets transferred to developing economies where there is an abundance of such unskilled, and semi-skilled labour available at lower wages. But service industry is labour intensive. Either at one end of service production you have the fast food restaurant that employs a lot of low skilled labour, or at the other end you have high value service production, such as telecomms or computer games production, which might employ relatively fewer workers, but workers who are more highly skilled, and whose labour is therefore complex labour, and so representing a much larger quantity of abstract labour.

In either case, the organic composition of capital in service industry is lower than in material production. As Marx describes this means that the rate of profit in service production is much higher than in material production. The consequence then is that as a result of the creation of an average rate of profit, this much greater rate of profit in service production, sees a transfer of surplus value to the lower profit material production. This occurs by a much greater accumulation of capital in the high profit service sector relative to the lower profit material production sector.

Indeed, that is precisely why there has been such a rapid growth of capital, and employment in the high profit service industry sector, and the material production sector has declined rapidly. It is the same thing that happened in the 19th century when industry grew relative to agriculture. Then too there were Physiocrats who claimed that it as only agriculture and not industry that created new value value and surplus value, and that industry was really just leaching off agriculture. It was wrong then, and those that apply the same arguments in relation to the growth of service industry today are wrong again. That those who claim to be Marxists today make this error, however, is not so understandable as the mistake made by the Physiocrats, because they were analysing things anew.

Dionysios Perdikis Says:
October 4, 2019 at 9:31 am

The only difference between a service and the rest of the industry is that production and consumption coincide temporally. It doesn't have to do with the "immateriality" of the product.

The singer produces both use-value (music consumed by listeners) and value, when capitalistically employed.

I insist, though, that the advertiser produces nothing at all. The advertiser doesn't modify the use-value of the chair, because he is not transforming the chair, but the consumers' minds. In the future, we might also have soldiers forcing us to buy stuff. I guess that Boffy will consider them as producing value as well…. I am also very interested to know what exactly do the lawyers and bankers do to the chair…

So, the same goes for bankers, lawyers, guards, private soldiers, marketing managers, and of course most of the state employees etc.

Therefore, services can be productive of value (and therefore of surplus value), or they can also only be consuming surplus value produced by productive industries and services, the same way the state consumes some of it.

Now, it is true that a large proportion of the total product, as well as the labor employed in developed economies falls into one of the following three categories:
a. state employers
b. services that produce knowledge commodities,
c. unproductive services.

(a) and (c) not only do NOT produce value, but allow developed economies to capture value produced all over the world.

Let assume that (b) DOES produce value against Thomas Rotta and others' opinion (see here: https://www.semanticscholar.org/paper/The-commodification-of-knowledge-and-information-Rotta-Teixeira/c61a5d99304d427dfa75aa1ecb665fb9e2c4d467),

still, it is quite probable that -via WTO IP laws and regulations- realises/captures more value than it produces.

This is a completely different phenomenon than realising higher value due to higher productivity (in within branch competition), or higher organic composition of capital (in among branches' competition). When a pharmaceutical industry exploits the patent of a chemical composition produced by its R&D department (usually based on state universities' basic research…), EXCLUSIVELY, thanks to IP laws, for a time interval that allows it to make superprofits, this has nothing to do with productivity or organic composition.

Instead, in underdeveloped economies we have:
a. 83% of the industrial proletariat,
b. much less services,
c. a huge non-capitalistic unofficial section of economy.

So, all kinds of value transfers can happen from underdeveloped and exploited countries to the imperialist/developed ones:
a. from productive to non productive activities,
b. from labor intensive industries to industries with higher organic composition of capital,

c. from non capitalistic activities to capitalistic ones,
d. from low-technology industries to industries with low demand elasticity due to exploitation of unique and well protected technologies.

For the underdeveloped countries, raising the exploitation rate is the only way they can compete (usually among each other), resulting to super-exploitation of their peoples.

In my view, this is the way Capital responds to the rising organic composition of capital and the fall in the profit rate:
total value increases via the super-exploitation of the workers in exploited countries, and it accrues to the imperialist countries via diverse mechanisms, among which exploitation of knowledge commodities is the most basic for marxist political economy, since it is the one mostly based on production itself. Other ways follow in the sphere of circulation such as the dollar domination etc.

Dionysios Perdikis Says:
October 4, 2019 at 9:37 am
I have to say that in the above comment I mistakenly conflate the production of knowledge commodities (software, music, patents traded etc) with the production of other commodities (medicines, cars, airplanes etc) that contain a lot of high technology related labor. Obviously, they function differently in the market. But, I wanted to stress that in either case value can be realised due to the exclusive use of technologies, (a) for the production of which a lot of labor is consumed, (b) they don't wear out, they are exclusively exploited for a long time, with high enough prices (due to low demand elasticity), and under the IP law protection against moral devaluation, eventually leading to superprofits.

Boffy Says:
October 5, 2019 at 1:14 pm
I don't have time to respond din full at the moment. I will try later. But let me pick up this point.

"The singer produces both use-value (music consumed by listeners) and value, when capitalistically employed."

Whether the singer is employed capitalistically or not has nothing to do with whether they produce value, as Marx sets out in TOSV Chapter 4. Provided what the singer produces is a use value, i.e. someone wants to pay to hear them sing, they produce new value.

As Marx says, in TOSV, otherwise why on Earth would anyone pay them an equivalent amount of value for having done so? The prostitute who sells their services to clients may not be employed capitalistically, but still produces new value by their labour, which their client illustrates by again handing over to them an equivalent amount of value in exchange for it. (Again I'm following Marx's practice for simplification in assuming that commodities exchange at their values rather than prices of production.)

In fact, as Marx describes, following on from Smith's identification of surplus value as being created in production, both the singer and the prostitute can produce a surplus value, here, if the new value they create is greater than the value of their labour-power. It is just not a surplus value in the capitalist sense, but it is the basis of such a capitalist surplus value. It is not a surplus value in the capitalist sense, because it is not something for nothing. The singer or prostitute does not get an amount of value greater than the labour they have given in exchange, whereas the capitalist does. The singer or prostitute gets an amount of value greater than is required to reproduce their labour-power, and it is in this sense a surplus value.

It is precisely this fact that enables the capitalist in employing the singer or prostitute to obtain this surplus value as something for nothing. In other words, they pay the singer or prostitute the value of the labour-power they buy as a commodity, and obtain the full value of the service they now provide, pocketing the surplus value for themselves, having given no equivalent for it.

Boffy Says:
October 6, 2019 at 1:32 pm
A quick comment on this while I have time.

"The advertiser doesn't modify the use-value of the chair, because he is not transforming the chair, but the consumers' minds."

As Marx says, all use value is in consumer's minds, because it is subjective. If we take two identical chocolate bars, for you the chocolate bar may represent considerable use value, because you like chocolate. For me the identical bar represents no use value, because I don't like chocolate. You would be prepared to realise the value of the chocolate for the seller, by buying it from them. I would not.

Now suppose, by some clever advertising I am persuaded that I really should like chocolate, and that there must be something wrong with me if I don't. Now as a result of this and peer pressure, I decide to buy the chocolate bar. I have now realised the value contained in the second bar of chocolate for the seller, including the value of the labour of the advertising labour that persuaded me that it had use value, where previously I thought it had none, just as the painter of a chair, persuades me that it has more value than an unpainted chair, even though, in terms of the functionality of the chair as a chair, painting it made absolutely no difference.

vk Says:
October 3, 2019 at 5:15 pm | Reply
No, because services is just a continuation of manufacturing.

Capitalism doesn't have parallel economies. You have one social profit rate only.

Dionysios Perdikis Says:
October 4, 2019 at 9:06 am | Reply
OK. So, let's take it from the beginning.

Capital is based on REAL abstractions, abstractions that helped Marx identify the essential laws of the capitalistic mode of production (CMP), and subsequently, explain, i.e,. reconstruct, reality by ascending from the abstract to the concrete.

There is no reason to assume that these laws should be absolutely fixed against the passage of historical time, as if the CMP, i.e., the reproduction of capital, doesn't undergo any historical development.

It is very bad science to talk about "what Marx said" without referring to the preconditions that apply. For instance, Marx presupposes free mobility of capital and labor for profit and exploitation rates to equalise.

Also, there is not only the Marx of Capital, but also the Marx of Grundrisse, who predicts what will happen when capital is fully developed (notice the historical element in the following lines, from here: https://www.academia.edu/28968938/Theories_of_Imperialism):

"

Lenin's concept of imperialism, as a transitional stage of capitalism corresponds with the dynamic analysis of capitalist development framed by Marx. In his rough draft of Capital, Marx summarised:

'As long as capital is weak, it still relies on the crutches of the past modes of production, or of those that will pass with its rise. As soon as it feels strong, it throws away those crutches, and moves in accordance with its own laws. As soon as it begins to sense itself and become conscious of itself as a barrier to development, it seeks refuge in forms which, by restricting free competition, seem to make the rule of capital more perfect, but are at the same time heralds of its dissolution and of the dissolution of the mode of production resting on it.' (Marx, 1973: 651)

Here the actual course of capitalist development, its refuge behind mercantilist tariff barriers, its emergence as free trade, and its retreat into monopoly and protection are pictured as the expression of capital's own transition. Perceptively, Marx anticipates Lenin's theme that capital will 'take refuge in forms' that are at odds with its own laws, such as monopoly, financial oligarchy, cartels and the export of capital. The specific features are not taken out of history, but related to the historical development of capital; they are, as Lenin explains, transitional forms.

"

To put it simply, today's globalised production in the international imperialist system systematically violates basic assumptions of Marx's laws:
a. free mobility of capital,
b. free mobility of labor,

Additionally, states play a very important role in labor power reproduction and therefore (non)mobility (public systems of health and education, and their exclusions), as well as of technological progress (public systems of basic Science, or Research & Development), in addition to more "traditional" functions to promote value realisation, monopoly creation of natural resources, etc (i.e., army and weapons' industry).

Finally, intellectual or knowledge commodities have properties that lead to a differentiated political economy: they don't bare any wear upon their use, i.e., they are used but not consumed, they are non-rival and non-inclusive, they suffer only moral devaluation, which raises the importance of demand manipulation, via IP law, advertising etc I remind everyone that it is labor's power unique property to produce more value than it consumes for its reproduction that is the basis of Marxian political economy. I am suspecting that the special properties of knowledge commodities can also be a game changer, especially as industrial production is more and more automatised. and the organic composition of capital is constantly rising.

Capital property is over-concentrated with the same legal and physical owners to control different industries all over the economy and, to some degree, internationally. Together with the state, the concept of "total capital" obtains also an institutional and/or physical materiality, beyond the one that is supposed to have due to the competition of INDEPENDENT producers/capitalists.

I think we need to account for systematically reproduced deviations from the equalisation of profit and exploitation rates that arise in the international market, as well as include the state and the R&D in reproduction schemas etc if we are to explain modern reality.

All the above doesn't mean that the law of value is not valid. On the contrary. It functions globally on an unprecedented historical level, which is exactly why we need to study its modified function.

It suffices if the tendency of profit and exploitation rates are slower to equalise allowing for a 1-2 decades of systematic reproduction of deviations from equality, for the whole (global) system to function differently.

All the most when different states specialise in so different parts of globalised production chains.

Boffy Says:
October 5, 2019 at 1:19 pm
I agree with many of the points described here, but again, I don't have time currently to respond. I will try to respond later.

Anti-Capital Says:
October 2, 2019 at 11:51 am | Reply
" In the mini-recession of 2016, the copper price fell to about $200/lb. In the Great Recession, it fell to $150/lb. Having risen to $320/lb in early 2018, it has now fallen back to $250/lb."

Watch your decimal points. Copper is at $2.60/lb, not $260.

michael roberts Says:
October 2, 2019 at 2:20 pm | Reply
Yes seems to have got stuck

mandm Says:
October 2, 2019 at 6:51 pm | Reply
correction: my attempt at irony in the last sentence should end: (God forbid) falling apart.

ucanbpolitical Says:
October 3, 2019 at 3:56 pm | Reply
Right Michael time to deliver the knock out blow. Latest data in. Chin up Boffy. 68% of all profits in the S&P 500 are produced in the goods producing sector. Only 32% is produced in the so called service sector and some of that arises from the goods producing sector itself. Little wonder Marx called the cycle the industrial cycle. Don't bother getting off the canvas Boffy.

Boffy Says:
October 4, 2019 at 7:50 am | Reply
First of all would you like to provide the link to your data, rather than asking us to just accept your statement. Secondly, we were talking about new value creation not surplus value production. Thirdly, surplus value production, and profits are not the same thing, because of prices of production, and the creation of an average rate of profit. Fourthly, it depends on definitions of services and goods producing. Fifthly, either way you again assert that "some of that arises from the goods producing sector itself" without evidence, and as seen above your argument in that regard is fallacious, because it involves you arguing that value is created by consumption rather than by labour in production, or else it involves the double counting of intermediate production.

Boffy Says:
October 4, 2019 at 8:33 am
According to the <a href=https://www.cia.gov/library/publications/the-world-factbook/geos/us.htmlCIA World Factbook for the US, we have GDP by sector of origin, note sector of origin of the new value,

Agriculture 0.8%, Industry 19.1%, Services 80%.

So, whatever figure for profits you may have is besides the point. The ORIGIN of 80% of new value is in service industry, and a look at employment shows the same thing, with 1.39% employed in agriculture, 19.66% employed in industry and construction, and 78.72% employed in services.

Given that value is created by labour, and not s you seem to think by consumption, or by the transfer of value of dead labour, compounded by double counting intermediate production, its no great surprise that there is such a close correspondence between the employment of labour by sector, and the production of new value by sector!

Anti-Capital Says:
October 5, 2019 at 1:36 pm
The 19% number for industry becomes about 33% when you include the GDP figures for transportation and trade (BEA.gov website). In addition BEA attributes 20% of GDP value added to the FIRE sector, and another 12% or so to government.

Doesn't mean services aren't important, but it does indicate it's a mistake to dismiss the importance of "hard" production to the reproduction of capital. It does indicate that declines in the rate of profit in the goods producing and goods circulating sectors of the economy still threaten, and vitally, that reproduction.

Anti-Capital Says:
October 4, 2019 at 12:46 pm | Reply
To my knowledge S&P 500 3rd quarter earnings report summation will not be published until October 10. Meanwhile estimates from several "professional" analysts are predicting a year over year decline of 3% or more.

The S&P 500 index equity ratio for manufacturing (the portion of the index made up of manufacturing companies) is about 45%. Total S&P revenues usually follow, but trail, manufacturing orders, as they do US exports.

Lots of information available from Yardeni at:

https://www.yardeni.com/pub/stmktbriefrev.pdf

Boffy Says:
October 8, 2019 at 12:55 pm | Reply
So, now to review.

Five days ago you wrote,

"Right Michael time to deliver the knock out blow. ". Chin up Boffy. 68% of all profits in the S&P 500 are produced in the goods producing sector."

This was like in a discussion about apples, someone claiming to have produced a knock-out blow by producing data relating to oranges. In other words, my original statement was that 80% of new value is produced in Service Industry, and in response, you produce your supposed knock-out blow by producing a general statement not about value creation, but about profits distribution!!!

Now, we can assume one of two things from that. Either your understanding of basic Marxist concepts such as value, surplus value, and profits is so poor that you don't understand the difference between these wholly different categories, or else you do, but you chose to provide data relating to profits rather than relating to new value creation, simply on the basis of arguing dishonestly. I'll let you choose which of these explanations applies, or maybe its both.

Even so, whilst pointing out that profits are not the same thing as value, or even surplus value, I allowed you to continue to hang yourself. I asked the simple question for you to validate your assertion that 68% of profits in the S & P 500 were produced in the goods producing sector. If indeed, the "latest data" was in, as you claimed, it should not have been hard for you to simply point to this data in an easily accessible form.

Instead, what we have had is you obviously scrabbling around trying to find some data to validate your claim. First we were pointed to charts from Ed Yardeni, that did not appear to provide the data you claimed was "in". Then we were pointed to Fortune Magazine, where instead of any substantiation of your claim we have simply lists of profits from companies as simply flat data, from which it is impossible to extract any meaningful analysis without much greater analysis by drilling down into those profits.

Either way, its clear that none of this which you have scrabbled around to various sources to find, in any way substantiates your original claim that your supposed knock-out blow was anything more than hot air that evaporated on a simple request for substantiation. In other words it is the typical bluff and bluster we have come to expect from a troll or a Trump.

In the tables you provided we even had the ridiculous claim that 83% of healthcare comprises goods production and only 17% services. But healthcare, as opposed to the goods consumed in the provision of healthcare, such as pharmaceuticals, biotechnology, medical hardware and so on, is the epitome of service production. No part of healthcare involves the transformation of material inputs into material outputs, unless, as I previously stated, you want to class the birth of babies as being a physical output, which in turn requires then considering babies to be a commodity!

Indeed, your argument continually revolves around the anti-Marxist idea that value is produced by consumption rather than production by labour.

Your argument thereby is the antithesis of Marx's Labour Theory of Value, and closer to Malthus' theory of value, which confuses the production of value with the realisation of value in circulation. Then like many of the other theorists examined by Marx in TOSV, you combine this Malthusian theory with that of Ricardo, because you also then confuse and conflate surplus value with profits.

Your data relating to profits is irrelevant in relation to a discussion on value creation, but it is also irrelevant in relation to surplus value creation, if like Marx you understand that commodities do not exchange at their exchange value, but at prices of production. In that case, the surplus value produced in one sector, where the OCC is low, and the rate of profit is high gets redistributed to other sectors where the OCC is high, and rate of profit is low.

I have illustrated that it is precisely because the OCC in manufacturing is high that its rate of profit is low. The large amounts of fixed capital advanced in this sector means that relatively less labour is employed. As the comment from Moneyweek I have given says in relation to agriculture, the fact that employment in UK agriculture has fallen from 80% of the workforce to less than 2%, is not a result of less agricultural products been produced (in fact output has increased massively), but of this massive application of capital intensive methods to agricultural production. The same is true with manufacturing.

Huge amounts of fixed capital are employed in manufacturing, and this raises labour productivity, which means it also processes vast amounts of material. Its not that manufacturing output has fallen, as with agriculture, the volume of output has risen significantly, but less immediate labour is required to produce it due to this huge rise in productivity. This is a vindication of Marx's Law of the Falling Rate of profit. In other words, this huge rise in the volume of output comes about, whilst the share of new value in this output created by labour falls – as Marx also describes, the share attributable to fixed capital (wear and tear) also falls, because although the mass of fixed capital, and value of fixed capital thereby rises absolutely, it falls relative to the increase in the volume of output. It means the share of total produced output of goods, accounted for by raw material thereby increases.

A smaller proportion of labour in total output means also a smaller share of new value creation in this total output, along with a fall, thereby in the proportion of surplus value, and so the fall in the rate of profit in this sector.

But, your Ricardian theory fails to make this distinction set out by Marx, between exchange-value and price of production and between surplus value and profit. So, you just give us flat, meaningless data relating to profits, and profits at that relating only to S & P 500 companies,whereas a lot of service production is undertaken by companies outside its remit, some not even listed on exchanges.

The only way Goods producing industry employing 20% of total labour could produce more surplus value than the 80% of labour employed in service industry (and both comprise industrial capital in Marx's definition along with commercial capital) is if either the rate of surplus value in goods production was much higher than service production, at least more than 4 times as high, or else if the labour employed in goods production was complex labour compared to the labour employed in service industry.

In analysing the formation of the average rate of profit and prices of production, Marx assumes that the rate of surplus value is the same in each industry. His argument is straightforward. If the rate of surplus value is higher in industry A than industry B, workers will migrate from A to B, the effect will be to raise wages in A, and reduce them in B, averaging out the rate of surplus value once more. As with all such effects it is not perfect, because it depends upon the absence of frictions, but as Marx says,

"The fact that capitals employing unequal amounts of living labour produce unequal amounts of surplus-value, presupposes at least to a certain extent that the degree of exploitation or the rate of surplus-value are the same, or that any existing differences in them are equalized by real or imaginary (conventional) grounds of compensation. This would assume competition among labourers and equalization through their continual migration from one sphere of production to another. Such a general rate of surplus-value — viewed as a tendency, like all other economic laws — has been assumed by us for the sake of theoretical simplification. But in reality it is an actual premise of the capitalist mode of production, although it is more or less obstructed by practical frictions causing more or less considerable local differences, such as the settlement laws for farm-labourers in Britain. But in theory it is assumed that the laws of capitalist production operate in their pure form. In reality there exists only approximation; but, this approximation is the greater, the more developed the capitalist mode of production and the less it is adulterated and amalgamated with survivals of former economic conditions."

(Capital III, Chapter 10)

So, the only meaningful difference could arise from the labour employed in goods production being complex labour compared to that employed in service production. But, again, Marx's theory and the facts indicate why the opposite is generally the case. As Marx describes in Capital I, in describing the process whereby machines replace living labour in production, it is not just that these machines replace the actual living labour that causes a reduction in the value contribution by labour; it is also the fact that the machine deskills the labour, and thereby devalues it. A skilled carpenter's labour is replaced by the unskilled labour of a machine minder, who minds the wood lathe, etc, the skilled labour of the hand-loom weaver is replaced by the unskilled labour of the minder of the power loom, and so on.

By contrast, in much of the new service industry, it is skilled labour that is its feature. It may be complex either because of skill, and he actual value of he specific labour-power, or simply because the particular concrete labour is considered complex by consumers. If we take a major service industry such as sport, for example, the majority of new value is produced by a relatively small number of top class sportspeople. They represent a small amount of concrete labour, but a vast amount of abstract labour, because their labour is considered to be highly complex by consumers. A premier league footballer produces thousands of times the amount of value that simple labour produces, per hour, for example. The same is rue in relation to another major leisure industry, like film production, where a a relatively small number of actors produce vast amounts of new value.

If we take E-gaming, not only do we have companies such as Twitch, providing access to games with commentary, but we now have the equivalent of Premier League matches as a spectator sport, and of the World Cup, o Olympics where the winner of the E-Sports competition won a price of several million dollars, reflecting the new value being created and realised in that sector.

Or take fashion, or things like restaurants. Many consumers consider the labour of a celebrity or well known chef, or designer to be very complex labour, which is why they are prepared to pay high prices for their products. It is also why there are many people who try to obtain that value, and surplus value for themselves, without the cost of paying for the complex labour, by various forms of bootlegging of those products, via theft of intellectual property.

In short, the nature of labour employed in services are far more likely in general, though obviously not in every case, to be complex than is the labour employed in goods production. So, not only does the 80% of labour in services mean that it will produce more value and surplus value than the 20% of labour employed in goods production, but in terms of abstract labour, the labour employed in service industry is likely to comprise an even larger proportion than that 80% suggests.

But, more than that. Goods production involves physical production of those goods, which requires time to bring about. The rate of turnover of capital in general has been increased massively, as a result of improvements in productivity in both production and circulation. The rate of turnover today is probably around 50 times per year, compared to 8.5 times per year in Marx and Engels time. But, the rate of turnover in services is generally much higher than in manufacturing, because production and consumption in service production are more or less coterminous. This means that the annual rate of surplus value is much higher in service industry than in goods producing industry, and this also causes the annual rate of profit to be higher in service industry than goods producing industry.

That is why as Money Week, and UBS state the slow down in manufacturing is no big shakes. It is what happens with Service industry that nowadays determines the fortunes of economies. So far, US services PMI's are in growth terriitory at 52, which is probably why we have seen the US economy continue to grow, and why we say unemployment rates hit a 50 year low, and employment levels rise to new record highs.

And all that despite Trump's global trade wars and other idiocies, and besides Brexit affecting European economies, etc.

ucanbpolitical Says:
October 4, 2019 at 11:07 am | Reply
Google Yardeni. All the data is on the website. I was also thrown by that revelation years ago which also surprised Bill Jeffries. As I became more aware of how surplus value is transferred between industries in the SNA it is no longer surprising. If we understand that value added per industry is arrived at by deducting intermediate sales (inputs from other industries) from that industry's total sales then it is clear how value and with it surplus value is being transferred between industries. If services are such a big chunk of the economy and expanding it is very difficult to explain the profit and revenue recession of the corporations found in the largest stock markets. The real question as you pose is why is there not a generalized recession. The first 1% of GDP growth in the USA comprises imputed sales especially imputed rent rises, the growth in the fiscal deficit etc. It is statistical noise. Here interest rates and subsequent bubbles play there role in supporting consumption which makes it appear that the economy is growing through the cashing in of capital gains. This is about to end as capital losses replace capital gains.

Boffy Says:
October 5, 2019 at 12:55 pm | Reply
My other two comments on this seem not to have got posted. But, let me in any case deal with your argument here.

Your point about surplus value being transferred in intermediate sales is wrong, for the reasons Marx sets out in analysing that phenomena in Capital III, and in Theories of Surplus Value. If we start from the position that commodities exchange at their values rather than prices of production, then the value of all commodities that comprise inputs, i.e. constant capital already includes this amount of surplus value. The surplus value produced by workers in intermediate production, is produced along with the new value they produce. That is inevitably so, because the surplus value is a consequence of that new value being greater than the value of their labour-power.

You are double counting this surplus value for the reason that Marx sets out. I've already explained this to you several times. Take a simple example of a farmer who produces grain, which is supplied to a miller who produces flour who sells the flour to a baker who produces bread which is then consumed by all of these.

The farmer uses £10 value of seeds, taken from their previous year's production. They pay £10 in wages (which can be considered to themselves or their workers). The labour bought with these wages, produces £20 of new value, and so £10 of surplus value. The output value is £30, but (assuming constant productivity and so no tie-up or release of capital) they must withdraw £10 of output as seeds to replace those consumed in production.

That leaves them with £20 of grain supplied to the miller. This includes £10 of surplus value. For the Miller, this is intermediate production, and appears as £20 of constant capital. However, s Marx points out, what is the reality. None of this £20 actually constitutes constant capital. Its entire value is comprised of he new value created by the agricultural labour. The

£10 value of constant capital (seeds) comprises no part of it. It was never sold, but was withdrawn directly to replace the consumed seeds. As Marx puts it, in TOSV, it is an exchange of capital with capital, not capital with revenue.

The miller similarly creates £20 of new value by their labour, £10 of which reproduces their labour-power, and £10 constituting surplus value. So, the value of their output is now £40. But again, none of this constitutes a value of constant capital. In the same way that the value of the grain bought by the miller, was resolvable entirely into the new value created by the agricultural labour, so too the value of the flour is resolvable entirely into the new value created by that agricultural labour plus the new value created by the miller's labour.

As Marx points out, we could simply put on one side all of the surplus value created at each stage, which would amount to £10 + £10 + £10 = £30. The reason that the GDP/NI income figures are wrong, is because they only total up the new value added, but that is different to the argument you are making. The total value of output here is £80, whilst a calculation of GDP/NI would be only £60, i.e. the value of the final output as indicated by the value of output of the baker. As Marx says, this is actually only the value of the consumption fund, or of revenue.

The total value of output is £40 grain + £20 flour, + £20 bread = £80. The reason, as Marx describes, that GDP/NI is only £60, is precisely because £20 of output by the farmer, is not marketed, but must be taken from output to replace in kind the consumed seed. The mistake made by the proponents of historic pricing, for example, as Marx describes in setting this out in relation to the confusion of Ramsay, is that you can only include the value of the £20 of seeds, if you abandon the analysis of capitalism as a continuous process based upon ongoing production, and instead reduce it to syllogistic series of discrete events, comparing one year to another on the basis of comparative statics, which assumes that all of the capital is to be sold/liquidated, and then started again in a new year.

As Marx shows, unless you calculate in this way, you simply double count the value of inputs, and of the surplus value contained in them, which is what you have done. Again as Marx points out, if we look at the farmer, assuming they are going to remain in business, they cannot consume/treat as revenue the whole £40 of value they produce, because they must replace on a like for like basis, the £20 of seed they have consumed. Similarly, the value of output of the miller is £40, but they do not have £40 of revenue, because they must also replace in kind the £20 of grain they bought from the farmer, leaving them only with £20 of revenue, divided £10 wages and £10 profit. Finally, the output of the baker is £60, but they cannot consume £60 of revenue, because they must replace the £40 of flour they bought from the miller, leaving them again with only £20 of revenue, again divided £10 wages £10 profits.

The total revenues are £30 wages £30 profits, which then buys the bread which is the final output constituting the consumption fund. In addition, £20 which does not constitute revenue, is used to directly replace the £20 of seeds, thereby constituting capital not revenue.

Now to come back to your point about corporate profits, the situation becomes perfectly clear. If we take manufacturing an other such material production, it is heavily capital intensive. After 200 years of industrial development large quantities of labour have been washed out and replaced by machinery. That machinery has raised the productivity of labour in that sector so that a relatively small amount of labour processes a large quantity of raw material, as well as their being a large volume of wear and tear of fixed capital, contained in the value of its output. In short, the organic composition of capital in this sphere is very high. The new value created by labour in this sphere is thereby low, which on the basis of Marx's Law of the Tendency for the Rate of Profit to Fall, which explains the allocation of capital, and formation of an average rate of profit and prices of production on the basis that the rate of profit is low in areas where the organic composition of capital is high, and vice versa, means that the rate of profit in these spheres will be much lower than the average.

That means that capital will accumulate much more rapidly in other spheres where the rate of profit is higher, as a result of the organic composition of capital being much lower. As Marx says in Capital III, Chapter 14, capital flows into those areas where

"the greater resistance, which some branches of production, by their very nature, render to the transformation of manual work into machine production. On the other hand, new lines of production are opened up, especially for the production of luxuries, and it is these that take as their basis this relative over-population, often set free in other lines of production through the increase of their constant capital. These new lines start out predominantly with living labour, and by degrees pass through the same evolution as the other lines of production. In either case the variable capital makes up a considerable portion of the total capital and wages are below the average, so that both the rate and mass of surplus-value in these lines of production are unusually high. Since the general rate of profit is formed by levelling the rates of profit in the individual branches of production, however, the same factor which brings about the tendency in the rate of profit to fall, again produces a counterbalance to this tendency and more or less paralyses its effects."

This is precisely what has happened with the growth of service industry as a very highly labour intensive industry. The much higher rate of profit in service industry has attracted more and more capital towards it. On that basis, the average rate of profit is raised, and is raised the greater the proportion of total output service industry accounts for.

The explanation for profits in material producing industry, is therefore easily accounted for on the basis of the analysis of the law of falling profits, as the determinant of capital allocation, and on the basis of the associated determination of prices of production. Material production accounts for only a small part of new value and surplus value production, because only 20% of labour is employed in that sector, as against 80% employed in service industry. But, material production employs vast amounts of fixed capital, and processes large amounts of circulating constant capital, i.e. raw materials. The average annual rate of profit is calculated on the advanced capital, not the laid out capital, and because this material production advances large amounts of fixed capital and circulating constant capital, the figure for its average profit is correspondingly large.

In other words, the average profit it claims is far higher than the surplus value it produces. The prices of production for the commodities it produces are way above heir exchange values. It thereby sucks in huge amounts of surplus value produced by all of the immediate labour employed in service industry. Likewise, that service industry, which is labour intensive, produces huge amounts of surplus value, from all of that employed labour. Its rate of profit is high, because this huge mass of surplus value is high relative to the fixed capital it employs, and the fact that it employs no circulating constant capital other than as auxiliary materials. This high rate of profit sucks in huge amounts of capital in search of it, as predicted by Marx's Law of the Tendency For the Rate of Profit to Fall, where the organic composition is high/rate of turnover low. The consequence is that supply of such services increases much faster than the supply of material commodities. The price of production for service industry thereby falls significantly relative to its exchange value, as set out by Marx in his explanation of he formation of an average rate of profit, and development of market prices.

It simply means that the huge amount of new value produced in service industry from all the labour employed in it, as set out in all of he economic statistics, results in a huge mass of surplus value production, a large part of which is then sucked into the material goods sector, so as to raise the price of production in that sphere.

Even if your figures for profits were in any way a true reflection, all they show is that like many bourgeois economists you confuse profits with surplus value. The profit figures say nothing about where the surplus value was produced, whereas the employment data and the data for new value creation does. It shows that the labour and new value, and so surplus value is created overwhelmingly in the service industry, and then transferred via competition and the formation of an average annual rate of profit into the material production sphere, where large amounts of constant capital are employed.

None of that is a mystery to anyone who properly understands Marxist theory.

Boffy Says:
October 6, 2019 at 1:40 pm
I made a transcription error in the above. The value of seeds replaced from output is £10 as originally stated, but in subsequent calculations I did so on the basis of £20, so that I stated, for example, that total output was £80, where I should have said £70. It makes no difference to the argument.

Boffy Says:
October 5, 2019 at 1:47 pm | Reply
"Google Yardeni. All the data is on the website. "

That's not a link to the data. If you are going to make such sweeping statements you should at least point to a link setting out the data and calculations, or a link to the source data plus a summary of it, and justification of your conclusion. You do neither.

On a quick look at Yardeni's S&P charts i can only see a breakdown of S&P profits by Financial and Non Financial that might come close to your claims. But financial profits are not by any means service industry profits any more than non-financial profits are profits of material goods producing industry.

Either way, as described above its irrelevant, because a) the discussion was about new value creation, and the data shows clearly that it is overwhelmingly produced in service industry, and secondly profits are not the same as surplus value. The large majority of surplus value, along with the large majority of new value is created in service industry, not surprising as it employs 80% of all labour, and this surplus value is then redistributed to material producing sectors as part of the formation of prices of production.

Boffy Says:
October 4, 2019 at 1:29 pm | Reply
US Non-Farm payrolls up 136,000 on the month, with a 45,000 upward revision to previous releases. Unemployment rate down to 3.5% from 3.7%, as unemployed workers find jobs. The unemployment rate is now down to the level of 1969, during the post-war boom. Hourly wages up 2.9% on the year, which with current inflation means that real wages and living standards are rising.

So, not only is variable-capital continuing to be accumulated, which is consistent with the majority of labour now being employed and producing new value in service industry, but presumably those additional workers also require instruments of labour and auxiliary materials, so that additional circulating constant capital is being accumulated, which again is consistent with the importance of service industry, and with Marx's comment that output can expand on the back of additional labour, without any significant increase in fixed capital accumulation. But, no doubt today's Sismondians, Malthusians, Vargans and other assorted catastrophists will interpret growth as recession and tell us, that we are once again in the End of Days, as they have been sermmonising year after year with endless monotony. And, once again they will be wrong.

Boffy Says:
October 4, 2019 at 1:33 pm | Reply
I screwed up the hyperlink in the post above, so I will repost it corrected.

Boffy Says:
October 4, 2019 at 1:36 pm | Reply
According to the CIA World Factbook for the US, we have GDP by sector of origin, note sector of origin of the new value,

Agriculture 0.8%, Industry 19.1%, Services 80%.

So, whatever figure for profits you may have is besides the point. The ORIGIN of 80% of new value is in service industry, and a look at employment shows the same thing, with 1.39% employed in agriculture, 19.66% employed in industry and construction, and 78.72% employed in services.

Given that value is created by labour, and not s you seem to think by consumption, or by the transfer of value of dead labour, compounded by double counting intermediate production, its no great surprise that there is such a close correspondence between the employment of labour by sector, and the production of new value by sector!

ucanbpolitical Says:
October 4, 2019 at 3:07 pm | Reply
Boffy if I am going to take you seriously please do not misrepresent me. I have never said value rises in consumption, well I did once and then corrected myself immediately and publicly for the slip-up a month-ago. But anyway. My comments on this site has been to support Michael (a) the value arises from production (b) that profits drive investment and not vice versa. So this is for the record and let us leave it at that Please.

Boffy Says:
October 6, 2019 at 11:54 am | Reply
"I have never said value rises in consumption, well I did once and then corrected myself immediately and publicly for the slip-up a month-ago."

For any Marxist to claim that value arises in consumption, even as a "slip-up", suggests a rather flimsy understanding of Marxist theory. Fine if you admit that is the case, and that you are still trying to increase your knowledge of the theory, not fine if you are promoting yourself as some Marxist guru, particularly on the back then of a rather dubious interpretation of data on the basis of a supposed application of that theory.

But, I am not referring to any past slip-up in that regard on your part, but on your comment made here in the last few days!

You said,

"For example all the value attributed to Facebook and the bulk attributed to Google, is advertising revenue which emanates from industrial corporations."

In other words, the value created by Google workers, in your interpretation does not exist! The value is actually only a consequence of consumption of Google's services by industrial corporations!!! As I said, what next are you going to tell us that the value of corn is not determined by the labour of the farmer, but by the consumption of the gourmet? You don't seem to understand the basic difference described by Marx and even Adam Smith and Ricardo, between the creation of value by labour in production, and the realisation of value in circulation.

That is in addition to your failure to understand the difference between value and surplus value, and your Ricardian confusion of surplus value with profits, as though the Law of The tendency for The Rate of Profit, and thereby the formation of an average rate of profit and prices of production on the basis of it did not exist.

The data is quite clear that 80% of labour is employed in Services, with less than 20% employed in manufacturing. It is also clear, and thereby supports Marx's theory that it is labour which creates value and surplus value, that a corresponding 80% of new value is created in service industry.

In short, your supposed "knock-out blow" turns out to be nothing of the kind, but is simply you shadow boxing and hitting yourself in the face.

Boffy Says:
October 6, 2019 at 12:07 pm
"the value arises from production (b) that profits drive investment and not vice versa. "

This by the way is the Ricardian argument, not the Marxian argument. Marx specifically refuted this argument by Ricardo.

This is what Marx says in refuting that argument put by Ricardo.

"Finally, the extension of cultivation to larger areas — aside from the case just mentioned, in which recourse must be had to soil inferior than that cultivated hitherto — to the various kinds of soil from A to D, thus, for instance, the cultivation of larger tracts of B and C does not by any means presuppose a previous rise in grain prices any more than the preceding annual expansion of cotton spinning, for instance, requires a constant rise in yarn prices. Although considerable rise or fall in market-prices affects the volume of production, regardless of it there is in agriculture (just as in all other capitalistically operated lines of production) nevertheless a continuous relative over-production, in itself identical with accumulation, even at those average prices whose level has neither a retarding nor exceptionally stimulating effect on production. Under other modes of production this relative overproduction is effected directly by the population increase, and in colonies by steady immigration. The demand increases constantly, and, in anticipation of this new capital is continually invested in new land, although this varies with the circumstances for different agricultural products. It is the formation of new capitals which in itself brings this about. But so far as the individual capitalist is concerned, he measures the volume of his production by that of his available capital, to the extent that he can still control it himself. His aim is to capture as big a portion as possible of the market. Should there be any over-production, he will not take the blame upon himself, but places it upon his competitors. The individual capitalist may expand his production by appropriating a larger aliquot share of the existing market or by expanding the market itself."

(Capital III, Chapter 39)

In other words, Marx sets out here, contra Ricardo, and the argument you are putting, that what drives capital accumulation is the expansion of the market itself, i.e. annual rises in demand, which comes from growth in population, rising living standards etc., and competition. As the market expands, demand rises, and each capital must compete to retain its market share of this expanded market, and hopefully to gain a greater share of it.

As Marx makes clear, here, and contra your argument following Ricardo, this applies even if in expanding their production, i.e. accumulating additional capital, the profit they obtain on this additional investment results in a lower rate of profit. In the case described by Ricardo here, as a result of diminishing returns from having to utilise less fertile lands. Capital is forced to accumulate even if that results in a lower rate of profit, as a consequence of competition, because if it does not do so, it will lose market share, and become uncompetitive, thereby being driven out of business and the capital taken over by those competitors.

Now, Marx may be wrong, and you may be wright, but given your rather flimsy acquaintance with Marxist theory, somehow I doubt it.

mandm Says:
October 6, 2019 at 10:23 pm
Google provides two kinds of profit seeking service, one "free" to the public but with annoying ads, the other providing platforms for paying customers (merchants and producers) that facilitate the circulation and consumption of their goods. The the organic and technical composition of Google's capital investment is material enough, but whether or not the exchange value component of that investment plus surplus value can be realized monetarily on the market is determined by certain historically established general economic and social conditions that make Google (and all digitally dependent, "post-industrial" services possible: colonialism, industrialization, two crises driven world wars, a monetary/oil profit crisis, off-shoring of industrial production, and the imperially enforced, transnational corporate creation of global production chains of cheap, socially necessary wage goods commodities, beginning, in the case of Google, with the transnational-modulated production of cheap personal computers–90% of the exchange value of which, you say, was produced by highly skilled and well paid workers in the West.

You are spot on regarding exchange value. But, who do you think produces 90% of the I Phone's use value?…. Who produces most of the basic goods that provide for needs of the highly skilled workers who produced all that exchange value, which, in itself is worth nothing?

Boffy Says:
October 8, 2019 at 11:28 am
"You are spot on regarding exchange value. But, who do you think produces 90% of the I Phone's use value?"

Can you first tell me what this quantity of use value is that I am to determine 90% of?

What metric have you used for determining this quantity of use value, is it "utils", for example, as proposed by the theorist of cardinal utility?

If you can actually provide a figure for the quantity of use value, and an objective unit of measurement of it, you will have achieved something that billions of dollars of investment by bourgeois economists who propose utility as the basis of value have not been able to provide!

Once again you demonstrate your complete lack of understanding of basic Marxist theory, and concepts, whilst wrapping up your dogma in a mass of basically meaningless verbiage.

The current world economy, and components of it are undoubtedly affected by all of the events that you have outlined, that is what produces the phenomenal forms of all of the laws and categories analysed by Marx, but you have failed to produce any substantive linkage between any of those events, and the specific phenomenal forms you refer to. Indeed, it would be impossible to do so in a comment of a few hundred words. I am currently working on a five volume book that covers some of those aspects relating to Imperialism, but not even that could cover ever nuance down to the detail you want to place on it. Once again, your comments amount to simply a concatenation of a series of mantras, tropes, and dogmas made as assertions, but without any supporting evidence or theoretical justification.

To answer your question,

"Who produces most of the basic goods that provide for needs of the highly skilled workers who produced all that exchange value, which, in itself is worth nothing?"

It is workers again in the advanced capitalist economies. The US and China today account for around 40% of total world GDP. As the comment from Moneyweek I have posted in another comment, points out, the fact that Britain's agricultural population has fallen from around 80% of the total population at the start of the Industrial Revolution to less than 2% today, is not a result of agricultural production falling. Britain today produces far more food than it did 200 years ago. It also produces more food than many less developed economies for the same reason, i.e. it produces it far more efficiently, because it produces it capital intensively.

This was the truth that Adam Smith recognised, and that Marx developed, which is that the source of the Wealth of Nations is the accumulation of capital, and the use of that capital to drive up labour productivity so as to create greater profits, which are then used to accumulate even more capital. Your, Stalinist/Third Worldist view about the wealth of nations being built upon unequal exchange between developed economies and less developed economies, on the basis of super-exploitation, derived from centre-periphery relations between imperialist/colonialist powers and oppressed nations is a throw back not just to before Marx, but to before Adam Smith, to the economic theories of the mercantilist, who defined the source of profit as being profit upon alienation as described by Steuart, and arising from such unequal exchange.

As with all of the ideas that have come out of the Stalinist school of falsification it represents a reactionary ideology and turning back of our understanding to pre-Marxian theories.

Daniel Says:
October 6, 2019 at 10:49 am | Reply
With regards to the yield curve and predicting recessions.
Why do you use the 10 year minus 3 months treasury yield rather than the 10 year minus 2 year treasury yield.

The reason I bring this up is because for the first time, the 10year-3 month treasury yield is inverted, whereas the 10 year-2year treasury yield is not inverted (anymore, very short blip).
Why does the 3 month treasury yield carry more weight as a signal?

michael roberts Says:
October 6, 2019 at 10:51 am | Reply
Most analysts reckon that the 10yr-3m curve is a more reliable indicator of economic development as the latter depends on the Fed and the former drives long-term borrowing rates. But the matter is debated.

ucanbpolitical Says:
October 6, 2019 at 11:15 am | Reply
As promised, and as requested by Boffy, I have posted a substantiation and explanation of the all important revelation that 68% of S&P 500 profits (60% of total corporate profits) derive from the goods producing sector of the economy. The posting also explains why it appears the service sector is so much bigger than the goods sector as described in the national accounts. https://theplanningmotivedotcom.files.wordpress.com/2019/10/s-and-p-500-profits-by-sector-pdf.pdf

Boffy Says:
October 6, 2019 at 2:26 pm | Reply
I have also looked at your data, which appears highly subjective in the way you have divided spheres into goods producing or service industry. For example, in what rational world is healthcare even 1% goods producing, let alone the 83% goods producing you have it being??? Unless of course, like the Libertarians of the Murray Rothbard variety, you consider babies to be commodities that can be bought and sold.

How can telecoms be 100% goods producing, when in reality it produces no goods, but produces instead a service whether in terms of voice calls, sms, or internet etc. This service can expand exponentially, with essentially no additional investment in circulating constant once the basic fixed capital investment is laid down, and basically only requires additional labour-power, usually of highly complex skilled labour.

How can Technology be 47% goods producing, when most software today is simply downloaded rather than shipped on any kind of physical medium. Indeed, much technology today, such as MS Office is not bought but is leased on the basis of monthly payments, typical of other service industries. Again, once basic fixed capital investment is made, the vast majority of this new value comes from the employment of highly skilled very complex labour. If we take an iPhone as an example, 90% of its value comes from that highly complex labour employed in the US that comes up with the design and architecture of the hardware and software, with only 10% coming from the labour employed in China to manufacture the phone!

A similar thing applies to utilities.

The same applies with Industrials and Staples. In Britain, for example, around 20% of household income goes in entertainment of some form. A look at the size of the E-Sports sector, gives an example, let alone the multi-billion dollar film industry, and so on, none of which appear to be covered in your calculations.

But, as I said, even if your very highly subjective division into goods sectors and service sectors was accepted it proves absolutely nothing, because it confuses profits with surplus value, and surplus value with value, just as you confuse the production of value by labour with the realisation of value in consumption.

If your argument were correct, you would have gone a long way to disproving both Marx's theory of value, and his law of the tendency for the rate of profit to fall, because given that 80% of labour is employed in services, and only 20% in manufacturing, it would be hard indeed to argue that labour is the source of value, when according to your theory the bulk of value is produced in manufacturing rather than services. It would disprove the Law of falling profits which says that the rate of profit is lower where the organic composition of capital is high, because the organic composition of capital is very high in manufacturing compared to services, and yet according to your argument, it is in manufacturing where the OCC is high, and where Marx says the rate of profit should be low, that you instead claim that the rate of profit and production of profits is high, and that in services where the OCC is low, and so according to Marx the production of new value and surplus value should be high, you instead claim that it is low!

Anti-Capital Says:
October 6, 2019 at 4:17 pm
"For example, in what rational world is healthcare even 1% goods producing, let alone the 83% goods producing you have it being??? Unless of course, like the Libertarians of the Murray Rothbard variety, you consider babies to be commodities that can be bought and sold."

Boffy's ignorance is the real howler here: In what world? In the world of the 500 largest corporations in the US. That was the subject under discussion. In the world of the companies that contribute the most to the output of goods and services. In the world of Abbott Labs, ABBvie, Baxter, Biogen…..Medtronic….Zimmer Biomet. Just check the list at
https://en.wikipedia.org/wiki/List_of_S%26P_500_companies

"How can Technology be 47% goods producing, when most software today is simply downloaded rather than shipped on any kind of physical medium. Indeed, much technology today, such as MS Office is not bought but is leased on the basis of monthly payments, typical of other service industries. Again, once basic fixed capital investment is made, the vast majority of this new value comes from the employment of highly skilled very complex labour. If we take an iPhone as an example, 90% of its value comes from that highly complex labour employed in the US that comes up with the design and architecture of the hardware and software, with only 10% coming from the labour employed in China to manufacture the phone!"

This is more ignorance. Look at the S&P 500. Juniper Networks, Cisco, Apple, Applied Materials……The labor involved in producing an Iphone does not make an Iphone a service. It remains a product. Now, cloud based storage, data ccapture, that's a service, but technology in the S&P 500 is half goods producing.

"A similar thing applies to utilities." Talk about highly subjective. Manufacturing and delivery of gas, electricity,etc is manufacturing and delivery of a good that is utilized as a service, but requires the goods first and foremost.

"The same applies with Industrials and Staples. In Britain, for example, around 20% of household income goes in entertainment of some form. A look at the size of the E-Sports sector, gives an example, let alone the multi-billion dollar film industry, and so on, none of which appear to be covered in your calculations."

What "same things"? That production of industrials requires labor-power? Don't think that ever was the argument. The issue is if the industrials make up a significant portion of the gross profits of US capital. BTW, E-sports and entertainment are indeed covered in the S&P 500, separately from industrials.

All this from Boffy just amounts to the upside-down inside out atmosphere that surrounds planet Boffy, a world where ignorance is knowledge. Planet Boffy is an ecologist's dream: there is no concrete there, only abstraction, abstraction,and more abstraction.

Anti-Capital Says:
October 6, 2019 at 4:34 pm
And this from Boffy: "If your argument were correct, you would have gone a long way to disproving both Marx's theory of value, and his law of the tendency for the rate of profit to fall, because given that 80% of labour is employed in services, and only 20% in manufacturing, it would be hard indeed to argue that labour is the source of value, when according to your theory the bulk of value is produced in manufacturing rather than services. It would disprove the Law of falling profits which says that the rate of profit is lower where the organic composition of capital is high, because the organic composition of capital is very high in manufacturing compared to services, and yet according to your argument, it is in manufacturing where the OCC is high, and where Marx says the rate of profit should be low, that you instead claim that the rate of profit and production of profits is high, and that in services where the OCC is low, and so according to Marx the production of new value and surplus value should be high, you instead claim that it is low!"

is just pathetic– a) because the S&P numbers refer to a mass of profit, not the rate. Nobody has said the profits attributable to good producing accrue at a higher rate than in the services sector b) because Marx in Volume 1, 2, and 3 of Capital demonstrates how profits are allocated among capitals, and how the largest capitals, including those with the highest organic composition, claim profits equal to their size, aggrandize profit from those smaller capitals with a lower OCC but a higher rate of profit, and determine an average or general rate of profit.

Boffy Says:
October 6, 2019 at 12:49 pm | Reply
I have taken this comment from your blog post cited above. It again shows your confusion about the production of value by labour, and the realisation of that value in circulation. In other words, your continued confusion that value is created by consumption not production.

"These two giant corporations (Google and Facebook) do not produce
commodities because their output is not generally converted into cash through sale. They provide free
to use and free to click "services". The cash they receive is advertising revenue, most of which
originates in the corporations that populate the goods sector such as Procter and Gamble the world's
largest advertiser. Thus this revenue is "made" in the goods sector and "used" in the services sector
where Google and Facebook are located by industry classification."

The first sentence is illiterate in Marxist terms. It confuses the creation of value with the realisation of value, and the form of that realisation. The elaboration of the difference between exchange-values and prices of production, as a consequence of the formation of an average annual rate of profit, due to competition in circulation, which is a consequence of different annual rates of profit in different spheres arising from Marx's Law of the Tendency of the Rate of profit to Fall, where the organic composition of capital (assuming the rate of turnover in each sector is the same) illustrates the point. Value and surplus value created in one sphere, is not at all necessarily realised in that sphere. In spheres with a low organic composition of capital, high annual rate of profit, the value and surplus created in that sphere is not fully realised, because competition to obtain this higher annual rate of profit causes capital to accumulate faster in that sphere. That causes supply of these commodities to rise faster, than demand and so for their market price to fall. The market price falls until it reaches a level where the capital in this sphere only obtains the average rate of profit. But, that means that the commodities in this sphere do not sell at their exchange-value but at a price of production which is below it. The opposite occurs where the organic composition of capital is high.

Manufacturing production has a high organic composition, i.e. it employs a lot of constant capital relative to labour, and so relative to the new value it produces, whereas service industry has a low organic composition employing a lot of labour relative to constant capital, and thereby producing a lot of new value, and surplus value.

You then confuse the creation of value with the form of realisation of that value. If I build a bridge with the purpose of making a profit from its use, is that a commodity? Yes, of course it is. Does it make any difference whether I make this profit from charging each vehicle that crosses it an individual toll, or inviting users to buy an annual ticket so as to be able to use it as many time as they like, or I get companies to pay to put advertising on the bridge, so as to be seen by drivers, whilst then reducing or even abolishing the individual toll charges altogether, or indeed, whether I get the local authority to pay me an annual service charge so that any vehicle can use it freely? Absolutely not.

Workers in the NHS, in Britain produce a commodity/labour service in the form of healthcare. No individual charge for that commodity/labour service is made to the patient. Everyone in the UK is covered by the NHS, which obtains its funding from a combination of payments made by the government from taxes, including National Insurance, which is really just a form of Income Tax. The fact that the value of the commodity/labour service created by NHS workers is realised in this form rather than in individual cash payments by patients for the treatment they receive makes absolutely no difference to the fact of the value and surplus that those workers have produced by their labour.

If we go back several decades to the time when Britain had a number of nationalised industries, it was well known for example, that the coal, gas and electricity generating industries supplies energy to private companies at prices that were below what they should have been. In other words, some of he value and surplus value produced by labour in those industries was not realised in their sales, but was, thereby, transferred to the profits of the private industries that bought energy at these lower prices. It did not mean that the value and surplus value was not produced in the first place, it simply means that it was realised elsewhere, in the same way that as with prices of production, value and surplus value created in labour intensive sectors is realised in capital intensive sectors.

If we look at he GDP data, by removing the value of intermediate production, i.e. deducting the value of inputs from the value of outputs at each stage, what is left is the value added at each stage of production by labour (taking into consideration, of course that all these prices are approximations of prices of production, and not exchange-values). Consequently, the arguments you make about value being transferred from previous material production do not apply.

I will deal with the other elements of your post if and when i have time, but to be honest there are so many fallacies in it that its hard to know where to start.

Boffy Says:
October 7, 2019 at 1:52 pm | Reply

"Manufacturing production has a high organic composition, i.e. it employs a lot of constant capital relative to labour, and so relative to the new value it produces, whereas service industry has a low organic composition employing a lot of labour relative to constant capital, and thereby producing a lot of new value, and surplus value."

Just to highlight the significance of this point. Manufacturing employs 20% of total labour, wheres Services employs 80%. If you're argument were correct that value and surplus value is predominantly created in manufacture, and is somehow transferred to Services, this completely contradicts both the Labour Theory of Value which states that new value is created by Labour, and not by consumption or constant capital, and contradicts Marx's law of the falling Rate of Profit.

You have yet to give any explanation as to how 20% of labour can be the source of the majority of NEW value (immediate labour), as opposed to being employed in spheres (manufacturing) that processes lots of existing value (congealed labour), whereas the 80% of labour employed in Services industry is supposed to produce only a minority of the NEW value. But then, you have repeatedly failed to understand the difference between NEW value as represented by immediate labour and existing value (constant capital) represented by congealed labour, just as you, thereby continually posit value as being created by the consumption of that existing value as intermediate production, with the creation of new value by labour.

Moreover, given that only 20% of labour is employed in manufacturing, itself an indication of the higher organic composition of capital in this sphere, you of course, thereby cannot explain how on Earth this 20% of labour can account for the production of the bulk of surplus value production. If as with Marx we assume the same rate of surplus value – and otherwise, as Marx says labour would move to where it was lower and so it would be averaged out – then in the same way that Marx's Labour Theory of Value precludes 20% of labour creating the majority of new value, so it precludes the creation of the majority of surplus value.

Marx's theory of the tendency for the rate of profit to fall, says that the rate of profit is lower where the organic composition of capital is higher. That is in Manufacturing. Of course, a lower rate could be offset if in the particular sector, more labour was employed in absolute terms. But, the reverse is the case here. Manufacturing employs only a quarter of the mass of labour employed in services! So, not only do you undermine the labour theory of value, but your argument directly contradicts and undermines Marx's law of a falling rate of profit.

In other words, the mass of profit in manufacturing could only be higher than in services, given a lower rate of profit in manufacturing, resulting from its higher OCC, if the mass of labour employed in manufacturing was correspondingly higher than the mass employed in Services. But the opposite is the case. manufacturing employs only a quarter of the labour employed in Services.

The conclusion is obvious, and outlined in Marx's Law. The OCC in services is low, because it is labour intensive. The rate of profit in Services, is thereby high (it is actually higher also because the rate of turnover of capital in this sector is typically much higher than in manufacturing). The combination of this high rate of profit, and the much greater employment of labour in the Service sector, means that it is this sector that is the largest creator of surplus value by far.

The manufacturing sector by contrast, because it is capital intensive has a very high OCC, and correspondingly low rate of profit, and again that is accentuated by the lower rate of turnover in this sector compared to services. This low rate of profit, together with the fact that it only employs 20% of total labour, means that it produces only a small proportion of the total surplus value.

However, the manufacturing sector, because it is capital intensive, employing large amounts of fixed capital and processing large amounts of raw materials, accounts for a disproprtionate amount of total advanced capital. The average annual rate of profit is calculated on this total advanced capital. The price of production of manufactured goods is therefore, considerably above their exchange value, whilst the price of production of services is considerably below their exchange value.

The result is that vast amounts of surplus value produced in the Services sector are thereby transferred to the manufacturing sector as part of the process of forming an average rate of profit and prices of production. Suppose that although manufacturing accounts for only 20% of immediate labour, it advances the majority of total capital. Let's say it advances $60 (trillions if you like) of capital as against $40 for services. If the average rate of profit is 20%, then manufacturing profits would show up as being $12, wheres services profits would show up as just $8, suggesting that it is manufacturing that produces the majority of profits as you have been confused into believing, arising from your Ricardian theory.

Yet, the opposite would be the truth. 80% of the profit would have been created, as surplus value, by the Service industry labour, i.e. $16, whereas only $4 would have been created in manufacturing. It is simply that the formation of an average rate of profit, and prices of production transfers, $8 of surplus value from Services to Manufacturing.

Like Ricardo, you have confused profits with Surplus Value, and like Malthus you have confused the creation of value by labour with the creation of value by consumption. In the process you have undermined both the Labour Theory of Value and the LTRPF, or at least you would have done if your argument had any trace of validity to it, which it doesn't.

Anti-Capital Says:
October 7, 2019 at 7:09 pm
Actually the ratio of service employment to goods-producing in the US is 6.5:1, not 4:1, which is a GDP proportion. Check out

https://www.bls.gov/emp/tables/employment-by-major-industry-sector.htm

Boffy, as always, can't keep things straight, a side-effect of living on abstract planet Boffy I suppose.

So does anyone think the service sector is pushing 6.5 X the surplus value extracted in the goods producing sector?

So… the question Boffy is trying to grapple with is: how can a sector consuming less working-hours produce more surplus value than a sector consuming more working hours? Explanations include the simple: the RATE of surplus value is greater in the sector consuming less working hours, i.e. the workers reproduce the value of their wages in dramatically less time than do the workers in the sector consuming more working hours. Do a bit of calculation with the petroleum sector in the US, or the chemical sector, and you'll see just how great a higher rate of surplus value these higher rates can be.

IIRC, Boffy has used a variation on this theme himself to argue that workers in the "advanced" countries are not subsidized by workers in the "less developed" countries, and actually produce substantially greater amounts of surplus value.

And explanations include the complex: the profit of any particularly enterprise or sector is never achieved simply through realization of the surplus value that enterprise or that sector throws into the markets, but through the apportionment of the total surplus value thrown into the markets by all enterprises, all sectors.

Anyway, I'd just like to say, I am not trolling Boffy. I'm simply refusing to let him get away with his pretense at being the only one who truly understands Marx. In fact Boffy understands nothing.

Boffy Says:
October 6, 2019 at 1:02 pm | Reply
Just to pick up on this particular howler containd in your comment above, and which Marx deals with in TOSV Chapter 4.

"Thus this revenue is "made" in the goods sector and "used" in the services sector"

All consumption is undertaken as a result of revenue that is created elsewhere!!!! When I was employed by the local council, my wages/revenue came as a consequence of me selling my labour-power to the Council. I used my wages to buy food from Tesco, to buy my car from the local car dealership, my telephone and broadband from Virgin media and so on. So, was the value contained in all of these various commodities not then produced by the workers involved in the production of those commodities, but actually produced by my labour for the local council, and without which the value of those commodities could not be realised?

The Council itself, placed advertisements in local newspapers and magazines (a direct correlation with advertising on Google etc.), so was the value created by he workers who produce the newspapers and magazines, or was it created by the Council, via its spending on buying advertising?

What you are giving us is actually a throwback to even before Adam Smith, to the Physiocrats, who argued that only agriculture produced new value and surplus value, and that the wages of industrial workers were only possible because agriculture provided industry with inputs as raw material, and wage goods, and that industrial profits were simply a form of such a wage, and made possible only because agriculture consumed the industrial products, out of the surplus produced in agriculture.

I thought the aim was to move the development of theory forward not to relapse into pre-Smithian forms of thinking.

ucanbpolitical Says:
October 6, 2019 at 7:25 pm | Reply
Boffy you know that I do not rate you intellectually. But here is a test of your honesty as a researcher. Why don't you add up the data found in these two links https://fortune.com/fortune500/2019/search/?profits=desc
https://fortune.com/global500/search/
and when you have, pray, do inform the thousand or so readers of this website of your findings, or please step aside from this debate because while you may think you are adding to the debate I can assure you, you are not. So a test of your character. Let us not hear from you until you have divided up the profits found in the Fortune lists.

Boffy Says:
October 7, 2019 at 1:01 pm | Reply

Because a) I've already set out why your profits data is irrelevant for a discussion on surplus value production, let alone value creation, and b) I have set out why your categorisation of goods production and services is fallacious, and c) because I have more pressing demands on my time than to do the calculations you should do, and present to use in readable form for inspection!

As for your first sentence, I see that once again you have descended into the usual trolling and use of insults in place of argument. You are sounding more and more like Sartesian or whatever trolling persona he is currently using, or a Donald Trump.

Boffy Says:
October 7, 2019 at 2:28 pm | Reply
And, just for the hell of it, I did look at those two tables. I'd invite other readers to look at them and try to discern what on Earth you think that either table has to do with the discussion!

For example, the inclusion of Bank Profits means that the situation is completely distorted, because as Michael has correctly pointed out previously, a large part of bank profits are not profits at all, but capital gains on speculation, and bank profits from money-dealing are simply a transfer of profits made by industrial capital (manufacturing, services and merchant capital).

More importantly, as I've set out in other comments this focus on company profits, indeed profits themselves rather than the production of surplus value, and value, simply illustrates the extent of your confusion and application of Ricardian rather than Marxist theory.

Boffy Says:
October 8, 2019 at 10:47 am | Reply
Money Week notes in this relation,

"Factories still produce plenty of goods. They just don't need to employ as many people in doing so. It's just like farming – agriculture employs a tiny percentage of the developed world population today, but that's not because we haven't stopped growing food. We just don't need as many people to do it.

Today, providing each other with services to consume has become a far more significant part of the economy…

Anyway, as UBS pointed out in a note, "the contraction in manufacturing needn't mean the whole US economy slips into recession. Manufacturing represents only around 10% of the US economy."

Also, manufacturing has been slowing for a while. Trade wars aren't helping, but they are a recent problem. It was already hitting a wall.

That's partly about slowing Chinese growth. It's partly about a peak in the current semiconductor cycle (long story short, we've all got smartphones and very few of us are willing to pay £1,000 or more every year for a few go-faster stripes). And it's partly about disruption in car manufacturing (new standards and Germany in particular having trouble adapting to them)….

But what really matters is the health of the services sector. US consumers make their money and spend their money in the services sector. Overall, it accounts for the majority of US economic growth (same for the UK)."

Anti-Capital Says:
October 8, 2019 at 12:22 pm | Reply
"But what really matters is the health of the services sector."

The Wall Street Journal of 10/4/19 reports that in September the service sector of the US economy experienced its lowest rate of growth in three years.