THE CURRENT RATE OF TURNOVER AND OF PROFIT IN CHINA.

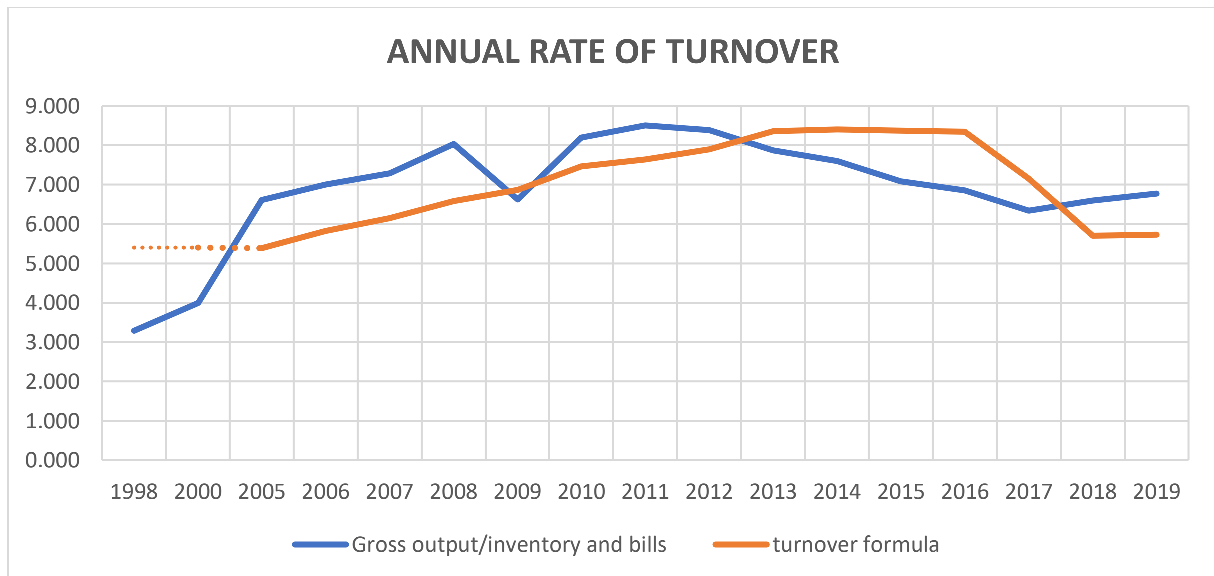
This is the second article to examine the rate of profit, this time in China. It follows the previous article which examined the current rate of profit in the United States. This article can be found on the following link https://theplanningmotivedotcom.files.wordpress.com/2019/08/profits-usa-q2-2019-pdf.pdf Unfortunately it is impossible to give as detailed an overview of Chinese profitability due to data which is less comprehensive and which is discontinuous. Nevertheless the need to focus on current profitability and trends has been achieved.

We begin with the rate of turnover. The China National Bureau of Statistics shows its Stalinist origins in as much as it places more emphasis on the turnover of fluid capital or circulating capital. As a matter of course, It publishes not only days of inventory, but also payment days outstanding together with bills and notes receivable outstanding. I have used the following formula to estimate turnover

$$\text{Rate of turnover} = \frac{\text{Total revenue (gross output equivalent)}}{\text{Inventory + bills receivable}}$$

as well as the regular formula for turnover which is GO/GVA + (GO-GVA)/GVA The former formula, which is cruder, reaches back as far back as 1998, while the latter begins only in 2005. I have attached the spreadsheet with sources and calculations for the first two graphs. It can be found in the spreadsheet marked *China rate of Profit 1998 – 2019* (page 2 contains a copy of Table 13-3, the source.) Additionally, current data can be found in the attached document: *China July 2019 profit data.*

Graph 1.

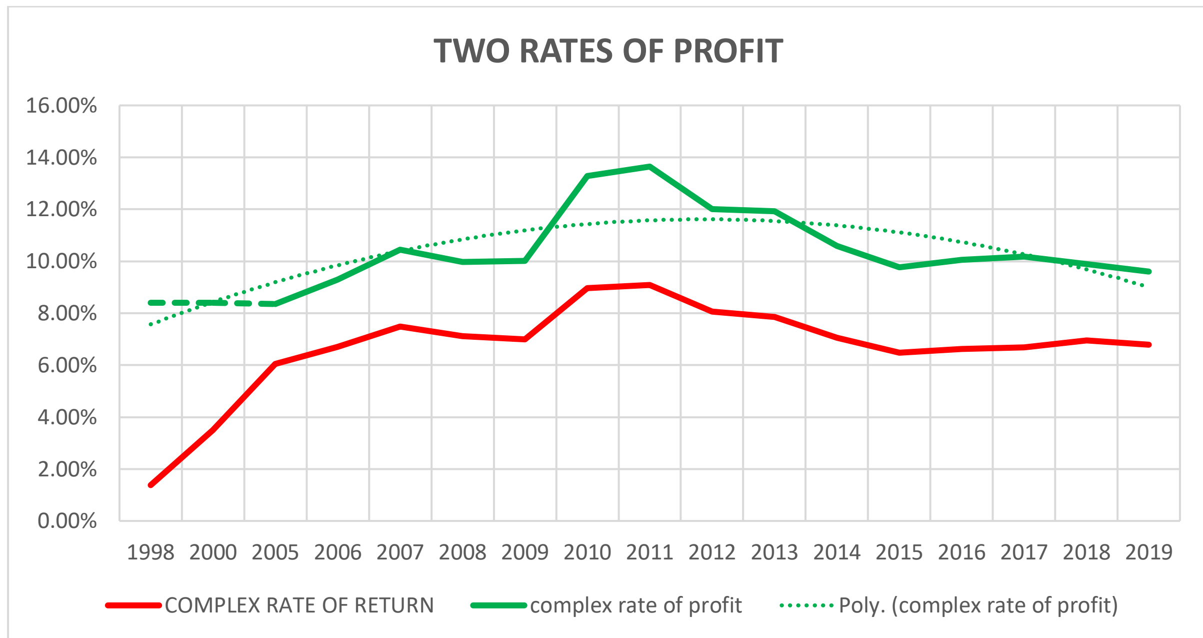


The data for the blue graph is continuous from 1998 while the brown graph is only available from 2005. For all the periods bar 2019, the data is based on annual figures. For 2019 the blue graph ends in July (covering the first 7 months of 2019) and the end point for the brown graph is the average for the first two periods of 2019. Because of the disruption to the data caused by the Chinese New Year, which overlapped quarters, the end point for the brown graph could not be the second quarter 2019.

Before any conclusions can be drawn it is best to examine turnover alongside the Chinese Rates of Profit, what I call the Complex Rate of Return and the Complex Rate of Profit. I use the terms “Complex” because the Chinese Statistical Bureau does not provide data on fixed assets, only total assets. Total assets are fixed assets plus financial holdings. As cross holdings in State Organised

Enterprises (SOEs) is endemic, it boosts total assets. It is one of the reasons why SOEs seem to be less profitable than their private counter parts where cross holdings are absent. (The case of the SOEs is similar to the system of Keiretsu relationships that characterised the Japanese economy in the 1980s.) It is likely that the total asset measure understates the true rate of profit by between 1 and 2%.

Graph 2.



It is to be noted that both rates peaked in 2011. Since then they have fallen by 30% similar to the USA. However, their peaks were influenced by the spring back from the depression in profits post 2008. In other words it involved the resolution of the realisation crisis that followed 2008. I believe that the more important turning point was 2013 as the polynomial trend line indicates, for it was in 2013 that the rates fell from their plateau of 12% & 8% respectively. Currently the rates in 2019 are no higher than the annual rates for the year 2009 which marked the depths of the financial crisis. Whereas there has been an insignificant recovery in the rate of return since 2015, no such recovery has taken place in the rate of profit. (The rate of profit is the more accurate measure. Note 2 at end.)

While the downward trend in all-industry profits, as detailed in the attachment *China July Profit data,* is reversing, the same cannot be said for the 3000 publicly listed Chinese Corporations. Their growth in profits has slowed from an increase of 9.4% in the first quarter to only 6.5% in the second. As they are more highly dependent on exports, the effect of the trade war is beginning to show.

Turning to correlations. The blue graph in Graph 1 is more closely correlated to the movements in the rate of return. Its fall preceded the fall in the rate of return, as expected, by about a year. The same cannot be said for the brown graph. Although it peaked and did not rise after 2013, it remained stable rather than falling. It only fell sharply in 2016 when the Chinese economy stalled at the end of 2015 descending into what I called the "pseudo recession". The fall in the rate of turnover as measured by the turnover formula between 2016 and 2018 was of the order of one third, very significant.

When quarter two data comes out shortly in the US, I will be able to match the current trajectories between the two countries more closely. Until then the preliminary observation is that the fall in Chinese turnovers from 8.3 to 5.7 appears to be on the same scale as the fall in turnover in the USA which began two years earlier at the end of 2014. While the blue graph recently reversed its fall the brown graph did not. I consider the brown graph to be the more accurate currently and more

predictive. The fall in turnover in both countries are suggestive of major structural changes to globalisation.

The question of debt.

In this section I will be relying heavily on recently released figures from the IIF which stands for the Institute of International Finance. These figures were released on the 5th August and can be found here. https://www.iif.com/Publications/ID/3477/IIF-Quarterly-Global-Debt-Monitor-2019--Slide-Deck Unfortunately the graphs I refer to in the release are not portable and the reader should keep the link open on a separate screen to refer to them.

China's debt rose to 303% in the first quarter from 297% in the final quarter of 2018, a significant jump. In comparison, the USA's debt using the same methodology stood at 335%. China's total debt of $40 trillion represented 15% of the global total and the USA's $69 trillion another 26%. Together these two countries total debt is over 40% of the global total, which gives a real perspective to the trade war and its consequences.

Not only is the USA's debt higher its profile is less healthy. This is shown in the third graph on page 5 of the slide show. These graphs compare emerging market composition of debt to mature markets, in short China to the USA. In the latter case total debt is dominated by financial and general government debt. In contrast emerging market debt is dominated by non-financial corporates, or industrial corporations. These are the corporations that produce value, not the ones engaged in speculation or the bailing out of speculators.

It is important to note that in the graphs relating to mature markets, non-financial corporate borrowing, which had been growing strongly up to 2009 stalled thereafter. In contrast the rise in borrowing by emerging market non-financials continued to rise and only stalled in 2016. Therefore, from 2016 it can be said that borrowing for industrial production and expansion stalled globally. 2016 represents a definite inflection point in the world economy.

It is no accident that four out of the top ten global banks are Chinese and that the assets of these four banks amount to 48% of the total for these top ten banks. The same phenomenon occurred in the 1980s in Japan and in the US after WW2. The common link in the growth of the respective banking systems was lending to industry, the source of value. It is no accident that China has the world's biggest banks by assets despite its economy and financial sector being nominally smaller than the USA. The reason, it now has the world's largest industrial sector, in total three times that of the USA. If ever proof was needed that value can only emerge from the production of commodities, this must be it.

Returning to the question of debt, Bloomberg is of the opinion that the run up of Chinese debt has continued and that it reached 310% in July. https://www.bloomberg.com/news/articles/2019-07-16/china-s-debt-growth-keeps-marching-on-as-economy-loses-pace This is consistent with the Chinese Central Bank reducing its reserve requirement ratio to 13%. This is the seventh reduction in 18 months. The most recent reduction released an additional $125.4 billion into the financial system bringing the total to over half a trillion dollars. In contrast, the reserve requirements in the USA stands at 10%.

To compensate for the trade war the Chinese Central Bank has released its hold on the grey rhino for the first time in two years, while being on the alert for black swans. In the vernacular: the rhino refers to rising systemic risk that can be observed and foreseen (leverage) while a black swan refers to an event which cannot be anticipated. Clearly, with more grey rhinos emerging, the greater the likelihood of a black swan event materialising. In short the government has abandoned its two year deleveraging of the financial sector which focused on local government debt and the shadow banking industry.

The result has been a surge in local government spending on infrastructure. “The quota for local government special purpose bonds, the proceeds of which must be used to fund infrastructure projects, has reached 2.15 trillion yuan (US 312 billion) so far in 2019, up 59 per cent, according to a report by Moody’s.” https://www.scmp.com/economy/china-economy/article/3018991/chinas-total-debt-rises-over-300-cent-gdp-beijing-loosens This surge in spending by the most indebted sector of the economy, is problematic despite the fact that local government is generally the driver of infrastructural development rather than central government, because of the way state property was originally privatised. Preventing the use of these funds for residential purposes, reduces, but does not eliminate risk. The finances of regional governments remain murky and in reality their debts should be added to central government debt. Were this to be the case the 51% state GDP level would be blown away. It is also one of the reasons why the 303% total debt may be understated. In addition it is worth pointing to the IIF observation that China’s has the highest incidence of short term debt.

The other factor intended to build resilience in the economy is the shift from production to consumption. The growth of the Chinese market is intended to buffer the fall in exports resulting from the trade war. But it is built on shaky grounds because it is funded by the growth in household debt in China, mainly youth debt. Between the last quarter of 2018 and the first quarter of 2019 household debt increased by a tenth from 49.7% to 54%. (Mao would be turning in his grave.) The global average is 47% while the US figure for the last quarter of 2018 stood at 76% (TradingEconomics).

Despite the growth in household debt economic weakness is clear in consumer spending. The South China Morning Post describes empty beaches in Laos, Cambodia and elsewhere as Chinese tourism has dried up. In addition, all the financial reports from leading luxury emporiums around the world have one theme, the loss of sales because of the lack of Chinese foot fall through their doors. “At Tiffany’s the overall sales drop to tourists visiting the US steepened to 25 per cent last quarter from a year earlier, and the decline was even deeper among travellers from China, the company said without giving a specific number.” https://www.scmp.com/news/china/article/3013118/tiffanys-us-sales-chinese-tourists-drop-more-25-cent

It seems likely that the surge in world tourism is subsiding, and this represents dark clouds before Boeing and Airbus. Emirates recent delay in taking delivery of aircraft, citing engine underperformance, may be the tip of the iceberg. Boeing’s problems with the 737 may turn out to be the least of its worries. The same can be said for estate agents selling luxury properties in previously booming cities such as New York, Sidney, Toronto and London.

When Obama was president his preferred real time test for how the US economy was performing was to phone up Starbucks. Four times a day Starbuck’s Head Office receives real time data of US and global coffee cup sales. At the beginning of September Starbucks surprised the markets by reducing its volume and financial expectations. What really jolted the market was the admission by this highly leveraged company (debt has tripled) that much of its previous profit over-performance was due to the tax changes, which would not be repeated. Encapsulated (despite the fact that Starbucks does not use capsules yet) in Starbucks is the story of US corporations, having feasted on debt, they are now struggling with their cash flows.

All of this adds to the overall picture of consumer spending beginning to contract worldwide. Major industries are now being affected. The global auto industry, which remains the world’s largest, and which projected 4 million fewer sales in 2019 is having to hurriedly redo the figures. Car sales in India fell a staggering 41% last month as credit dried up due to the growing insolvency of the financial industry. They fell by just under 10% in China, once again more than expected. Little wonder that two thirds of global non-service PMIs are now under water.

Where the Chinese government has been more successful, is opening up its financial markets. The inclusion in of shares and bonds in global indices, the removal of investment ceilings and the creation of conduits to draw in non-industrial investment has boosted the inward flow of investment. This has helped offset the continued outflow of capital and prevented it from running out of dollars.

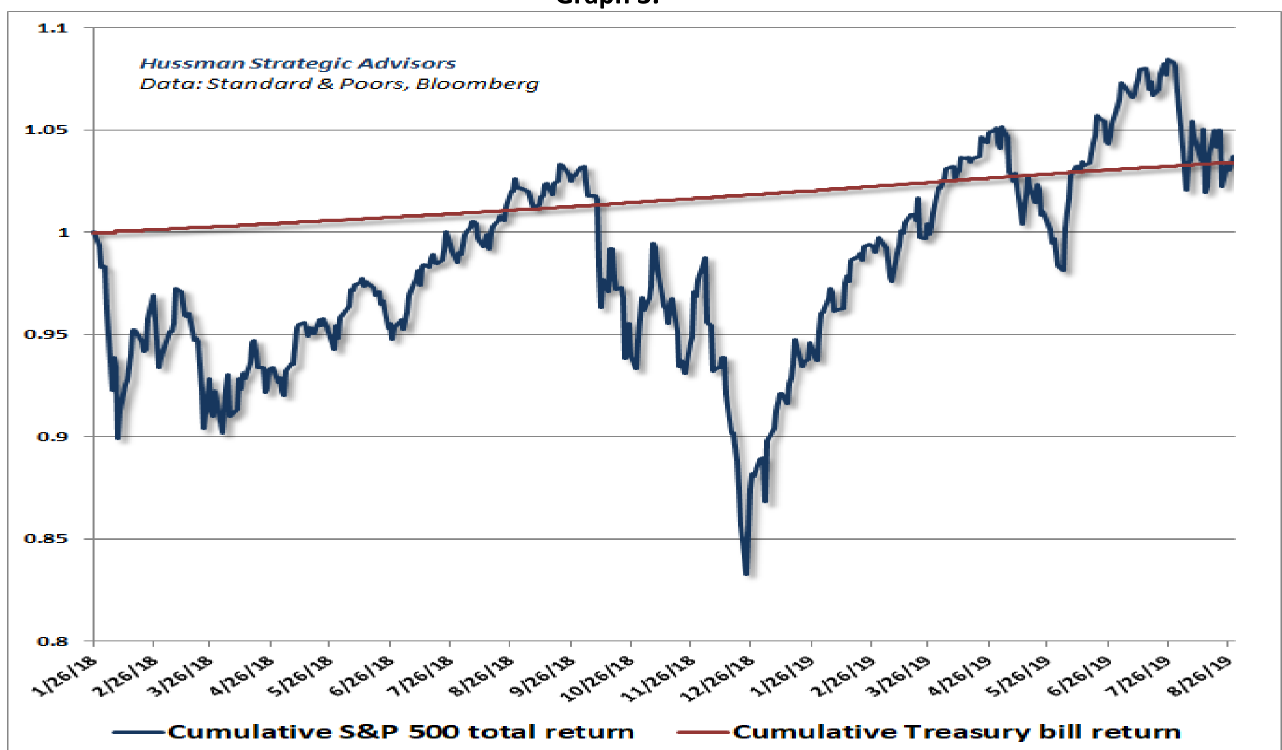
Global Debt.

According to an article in the Financial Times by Robin Wigglesworth published on the 9th September, the bond rally which began in 1985 is the second longest in modern history. Average interest rates decline by 0.174% per annum during this period. It is second only in duration to the bond rally between 1873 and 1909. The fact that these rallies both occurred during periods of globalisation is most definitely not coincidental. The *first era of globalisation* ended of course with the first World War, and unless we resist, the same outcome could occur with the now ended current period of globalisation. This adds new meaning to Marx's observation that capitalism creates its own barriers to development which need to be shattered, in this case the barriers erected by globalisation seems to require a world war to shatter them.

Unlike corporate shares which are a direct claim on surplus value, bonds are an indirect claim. It is surplus value in the form of interest or tax, paid by the borrower whether they are an industrialist, a consumer or the state. There is another difference as well, this time regarding expectations. Generally shares rise on the back of rising profits, but bond prices rise on the back of falling interest rates.

Finally, not only is the share market bigger in value, but it is also more volatile, except for last week. Last week revealed how overbought the bond market was, which had led to the plunge in interest rates, especially in the USA. Speculators obviously felt it was a sure bet that interest rates could only fall. Graph 3 below shows that returns from the bond market have equalled the returns from shares.

Graph 3.



(Hussman Strategic Funds)

However, from the 4th of September this over-bought market rolled over. The key 10 year US treasury yield which had been driven down to 1.43% rose to 1.72% within a week. This 25% rise in yield and the concomitant fall in bond prices was the equivalent of a crash on the stock markets. No doubt tens of billions in speculative "capital" was destroyed, especially bonds bought on margin which were seen to be a safe bet. In turn this led to the biggest "Quant Quake" in the Stock Market since 1999 when investors chasing momentum in bonds had to offload momentum shares to cover loss. The last time this happened was summer 2007 just before the Financial Crash. (*Momentum Crash Stirs Painful Memories of Quant Quake.* F.T. 13/09/2019)

This uptick in interest rates does not mean a change in the long term direction of rates. It just means that the capitalists, well they got too excited and greedy for their own good. The only thing that can reverse the fall in interest rates is the expansion of industry and commerce. That is real investment, which is currently and for the foreseeable future heading in the wrong direction.

In this regard, another interesting report has come out regarding fake investment. "*About 40% of all foreign direct investment is "phantom capital" that's being used by multinational firms to pay lower corporate taxes, according to a new study by the International Monetary Fund and the University of Copenhagen."* This amounts to roughly $15 trillion annually. https://www.msn.com/en-au/news/other/a-new-study-shows-40-25-of-foreign-investment-is-phantom-capital-being-used-to-avoid-taxes/ar-AAH2c1k

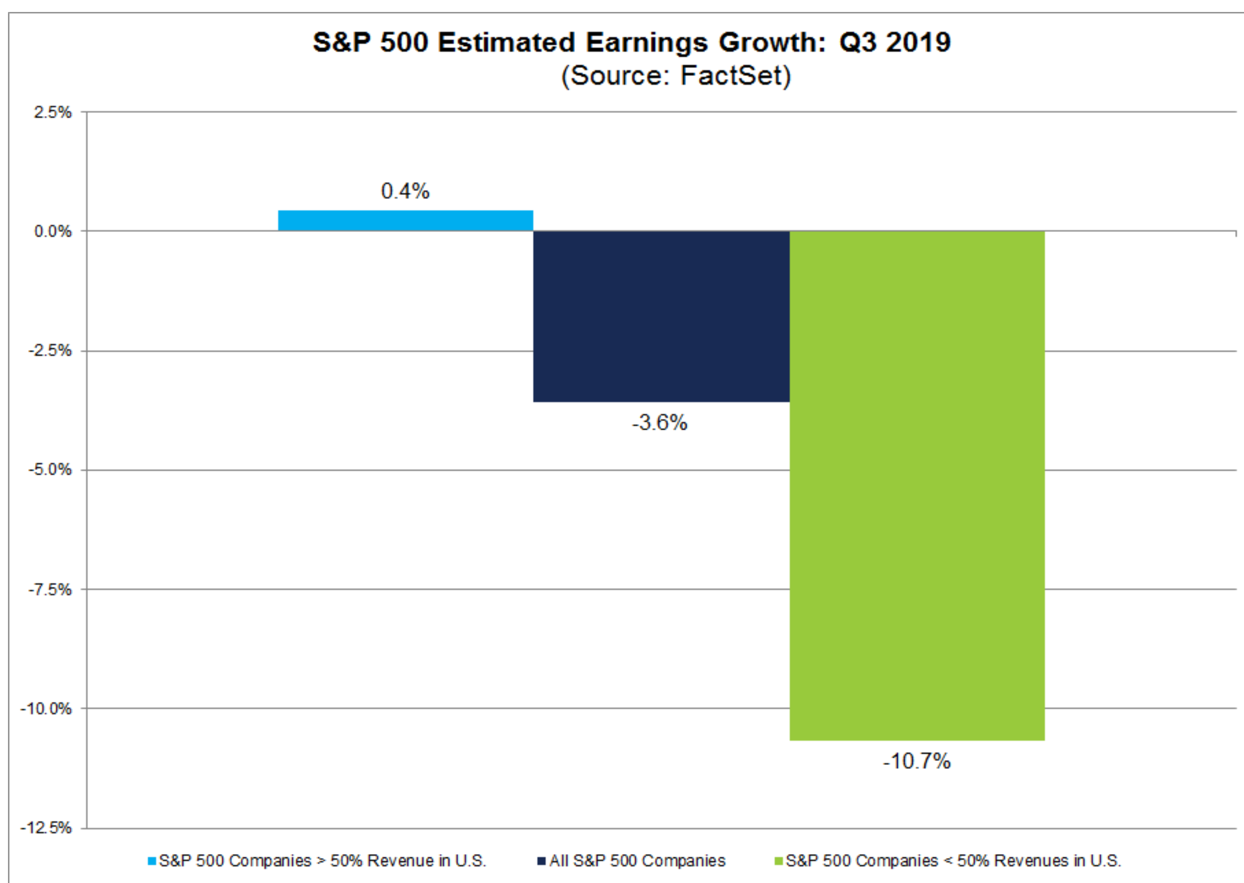
One of the worst culprits for phantom investments is of course private equity whose assets have grown exponentially. Private equity in the USA has jumped seven fold since 2002, a growth rate twice as fast as equities. It now accounts for 14% of total investment. Its primary model is to buy vulnerable corporations, in order to load them with as much cheap debt as the corporation can bear. The limits to this debt load are also set by the prevailing rate of interest and how desperate lenders are. The proceeds of this unproductive endeavour are then siphoned off to tax havens. It is a disaster in the making as Wallgreens Boots Alliance has shown. They are houses of cards, characterised by interest payments barely covered by cash flow. The fall in their critical cash flows, as is now happening, is the equivalent of shaking the table on which these houses stand.

As the IIF graph covering stressed firms shows, corporations with less than a coverage of 2 predominate in India, China, the UK, Germany and Japan. The largest though are in the USA.

Another major source of financial instability are ETFs, or passive funds which dominate the share markets now, not in size, but as a driver of volatility. Their focus is on the overall price of shares. If the stock indexes rise, they buy, adding to rises, and if indexes fall, well, that is the fear expressed by Michael Burry, the "hero" of the Big Short seen by millions which graphically describes the events leading up to the 2008 sub-prime mortgage crash. "*One of his most provocative views from a lengthy email interview with Bloomberg News on Tuesday: The recent flood of money into index funds has parallels with the pre-2008 bubble in collateralized debt obligations, the complex securities that almost destroyed the global financial system.* He compares it to the synthetic CDOs that almost brought down the world financial system because they cannot be unwound in a crisis. His final word, "it won't end well". https://www.bloomberg.com/news/articles/2019-09-04/michael-burry-explains-why-index-funds-are-like-subprime-cdos The vulnerability of these funds arises because they are momentum driven rather than driven by fundamentals. This disregard for fundamentals, especially earning-ratios, will in the end undo them, but it does explain the continuing stellar performance of shares throughout the period of sagging fundamentals.

The outlook for these fundamentals has not improved as the FactSet forecast below shows.

Graph 4.



The outlook for profits is worse for the most international and also largest of the corporations in the USA. This reversal in fortunes between nationally focused and internationally focused corporations is a recent phenomenon and is predicated on the US outperforming the world economy which is increasingly unlikely. So much for the expected bounce in the second half of the year.

The trade war.

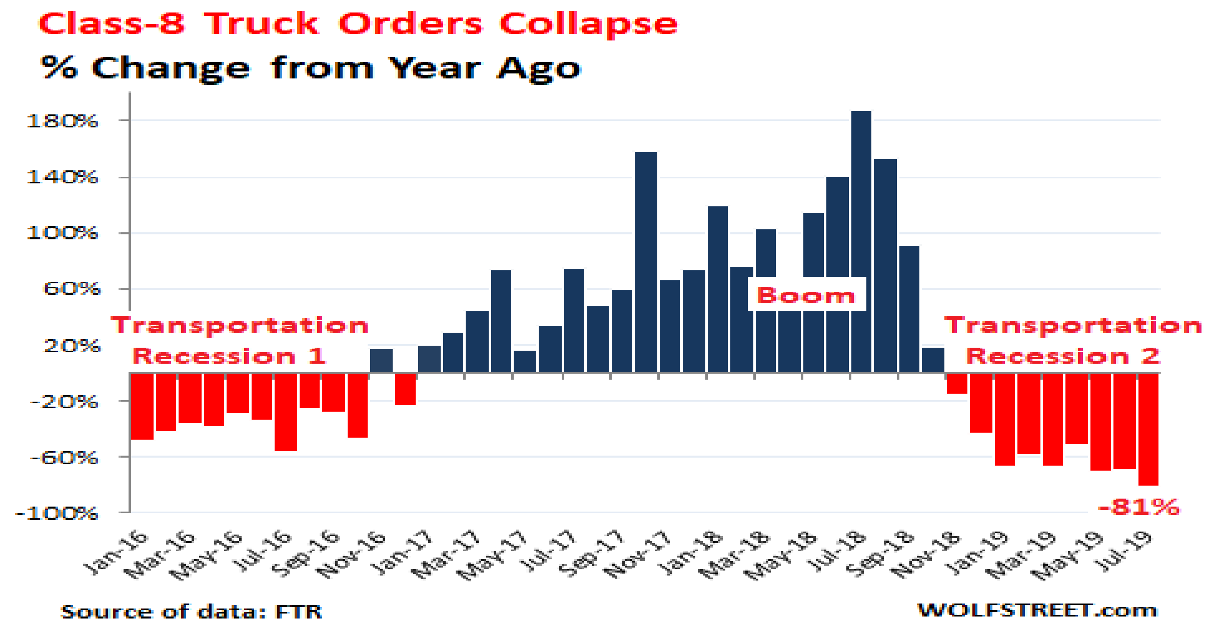
It is not the trade war that is giving rise to the crisis of profitability but the crisis of profitability that is giving rise to the trade war. Up to 2014, when US corporations were lapping up surplus value from China, there was no acrimony. As soon as this ended, tensions emerged. In typical Mafia fashion, the Boss (USA) allowed one of its lieutenants to run profits on its block as long as they did not cross the street. China has disobeyed and is now ascending the value chain to the displeasure of the USA in general and Trump in particular.

In a previous article I demonstrated how far the rate of profit has fallen in the USA since 2014, and that it now is effectively below 5%. This has predictably put the brake on investment. Unusually this has had a delayed effect on production. The reason for this is backlog of orders built up in 2018. At the height of the Trump Bump orders were placed beyond the capacity of US industry, which did not respond with a surge of investment aimed at expanding this capacity. Instead it opted to stretch out this order fulfilment.

Nowhere is this clearer to see than with the orders of H8 heavy trucks, the backbone of US freight. From an annual increase of over 180% in July 18 it has fallen to minus 80% in July. A violent movement of such magnitude, 260%, within 12 months is staggering. It also shows it was an aberration because

it occurred in a period of falling profitability rather than rising profitability. In a different period, characterised by a rising rate of profit rather than a falling rate of profit, it would have been enduring.

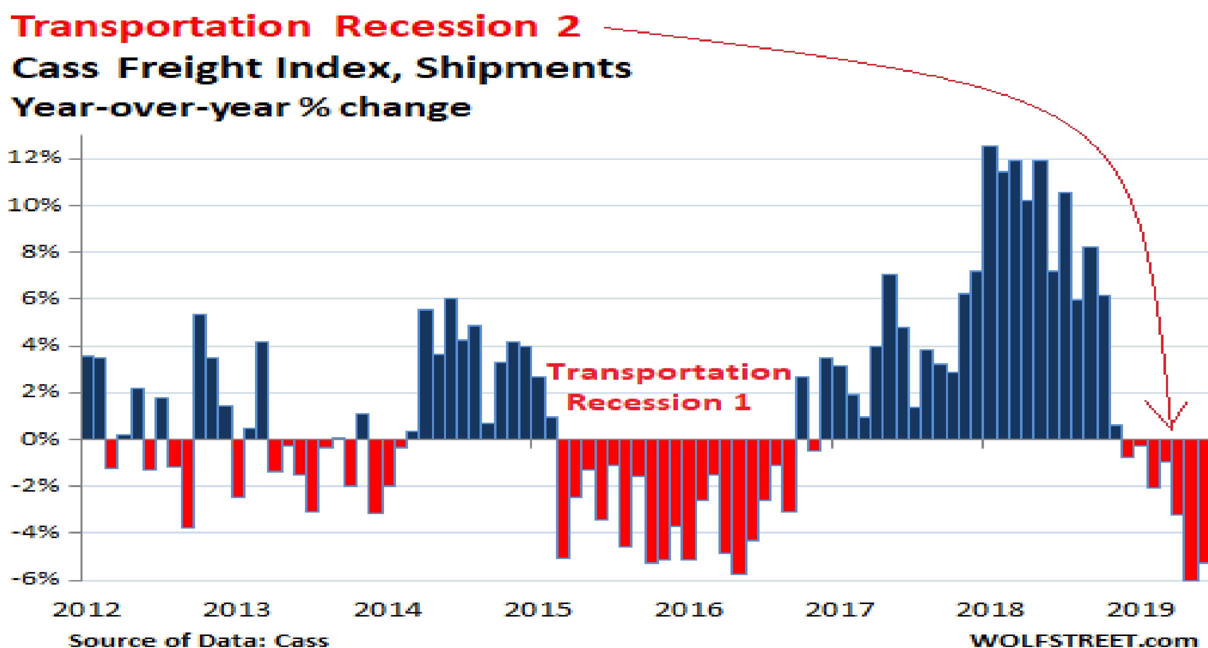
Graph 4.



https://wolfstreet.com/2019/08/03/class-8-truck-orders-collapse-81-percent-truck-makers-fed-by-backlog-but-for-how-long/

What drove this ordering frenzy was the growth in freight itself. What caused its collapse was the reversal in the growth of freight as shown in Graph 5 derived from CASS shows. (Graphs 4 and 5 share the same source.)

Graph 5.



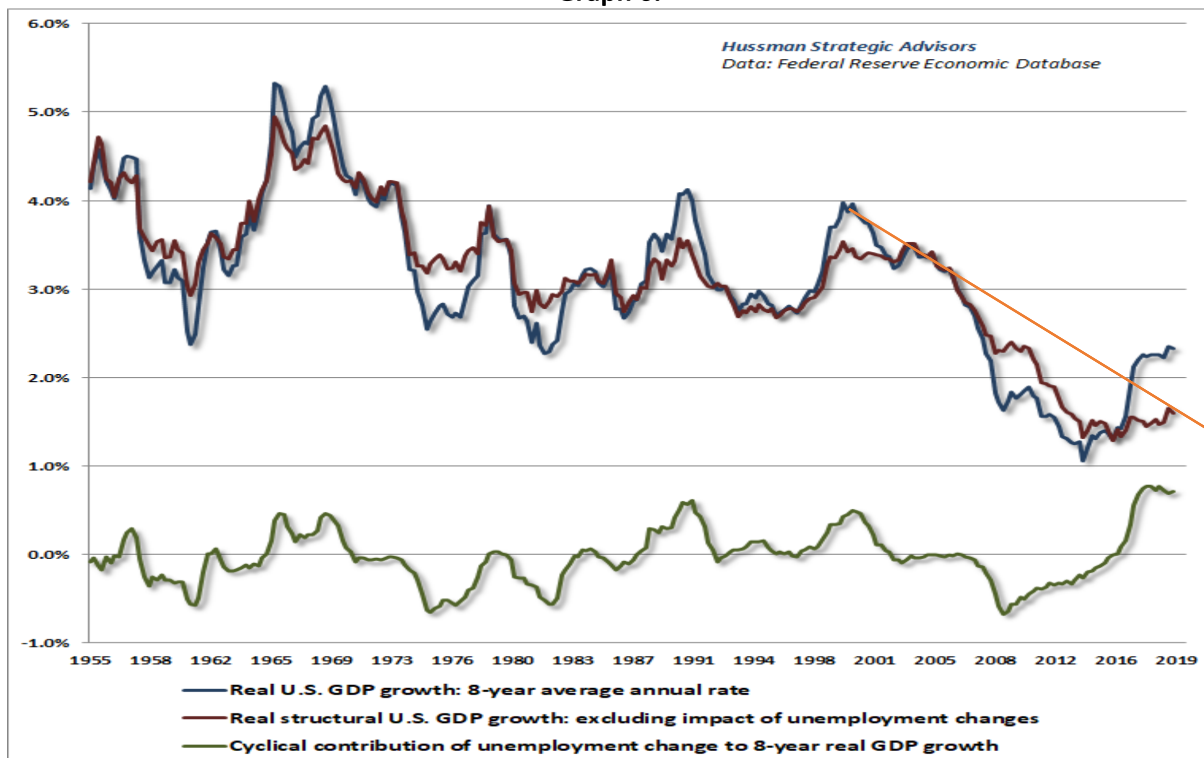
The near term question for the US economy is what happens when the backlog of orders is over. This is beginning to occur in different industries. Once the backlog of orders reduces, industry which is

already contracting will contract more sharply. This also depends on the oil industry which has been the only durable dynamic sector of the US economy. Just as the US has sought to hurt China's tech aspirations, China, the world's largest energy user, is in a position to hurt US oil. China's agreement to invest between $280 billion to $400 billion in the Iranian oil industry shows it has gone beyond simply ignoring the US embargo. Iran has the world's fourth biggest oil reserves, and should it re-enter the international oil market, its output will force down prices and make most of US tight oil production uneconomical. What began as a Shia Sunni civil war is now expanding into a US China War.

It is clear that the Trump Administration made two strategic mistakes when embarking on a trade war with China. Firstly, they overestimated the resilience of the US economy in the face of such a war. Secondly, they underestimated China's resolve. Together these two mistakes are fatal. *China will win the Sino-U.S. trade war, said the president of Independent Strategy on Monday 9th Sept* reported CNBC reported the following day. https://www.cnbc.com/2019/09/10/china-will-win-trade-war-reduce-reliance-on-us-tech-strategist.html *It is a conflict between a rising global power and a declining global power ... It's not just about trade. It's about technology, it's about the free flow of ideas, it is rapidly becoming about the free flow of individuals.* In other words this is geopolitical, the fight for hegemony, which the President of Independent Strategy expects China to win within 7 years when its reliance on US technology effectively ends. From the standpoint of the Pentagon, this is the war window.

Trump is sweating. Polls show that 57% of the population in the USA hold him responsible for the growing economic malaise and trade war, while only 33% blame the FED. Trump's tweets of course are the barometer measuring the desperation of the US economy. To the tweet, which labelled the FED chairman as an enemy greater than Xi, he has now added the insult that the FED chairman is a "bonehead" because really, interest rates should be at zero as any clever President knows.(Note 1.)

Graph 6.



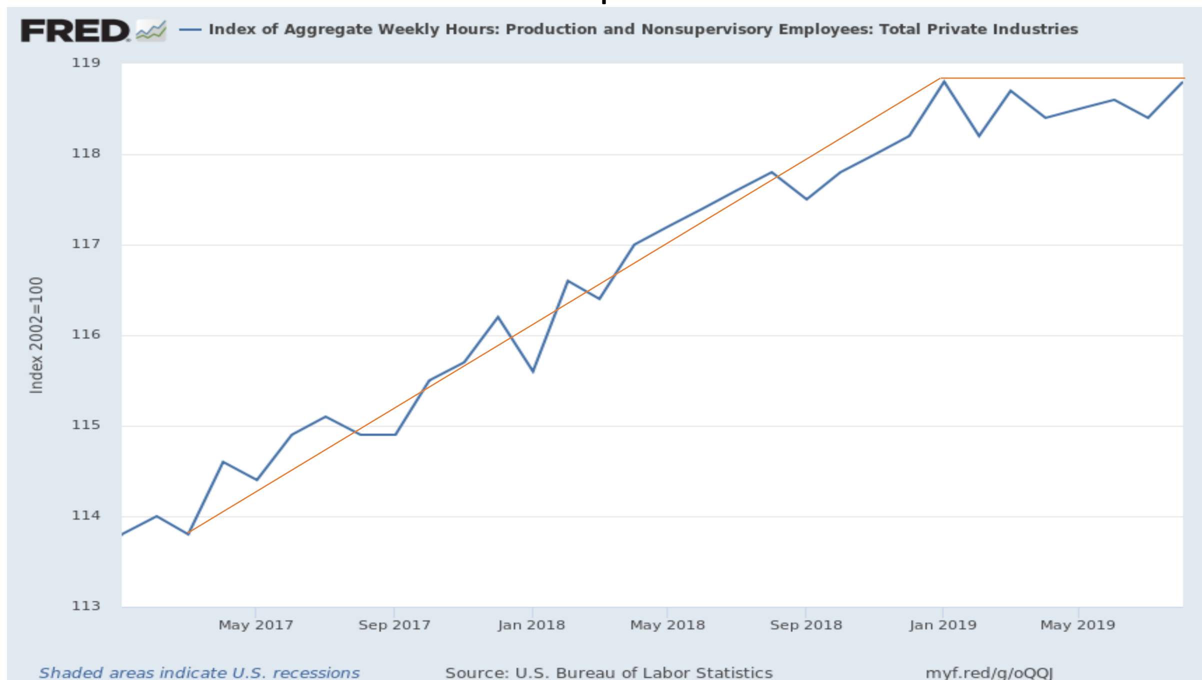
(Hussman Strategic Funds)

Graph 5 above shows the trajectory of the US economy. From a growth rate of plus 3% at the turn of the century structural growth has reduced to a maximum of 1.5%. The bottom graph is interesting

because it shows that it is the hiring of labour power, not investment that has driven growth since 2008.

This is the context in which the Trade talks will be held in October. Both boxers it turns out, have glass jaws. It is not only the US economy that is hurting, it is the Chinese economy as well. The disruption to supply chains on the one side are pressurising profit margins in the USA. Nor is the jobs market as robust as the headlines assume. The least worst indicator issued by the Bureau of Labour Statistics is aggregate hours and these hours have been going sideways in 2019.

Graph 7.



On the other side, tariffs are causing more and more corporations, both foreign and local, to move supply chains to countries like Vietnam and particularly Mexico. Many of the large US wholesalers and retailers are now giving their Chinese suppliers the ultimatum of absorbing some of these tariffs or losing their business altogether. The most recent data on Chinese exports show an annualised fall of 1% rather than the expected rise of 2%. Building roads and railways to replace factories that are closing may create jobs in China, but it makes little economic sense.

The trade talks at best will prevent a ratcheting up of the trade war. Such tactical swerves are of course common in all strategic conflicts. It is in the interest of China to defuse the trade war in order to buy time. It is not in the interest of the US, except that Trump is vulnerable before the forthcoming elections.

Xi and Trump may claim to be great statesmen, but they are the bit players of history once again, pawns moved by a much more powerful force, the march of capital ploughing the snow of profit and building snow ridges with sturdy crusts ahead obstructing further movement. The trade war is such a crust. What ending the trade war cannot resolve, is the crisis of profitability that gave rise to it.

In my previous article and this one, we have seen that the rate of profit has fallen more or less in the same period and not only in these two countries. In Japan the rate of profit was 5.01% in 2015. It is not a question of the slope changing, of profits flowing from the US to China, with the rate of profit

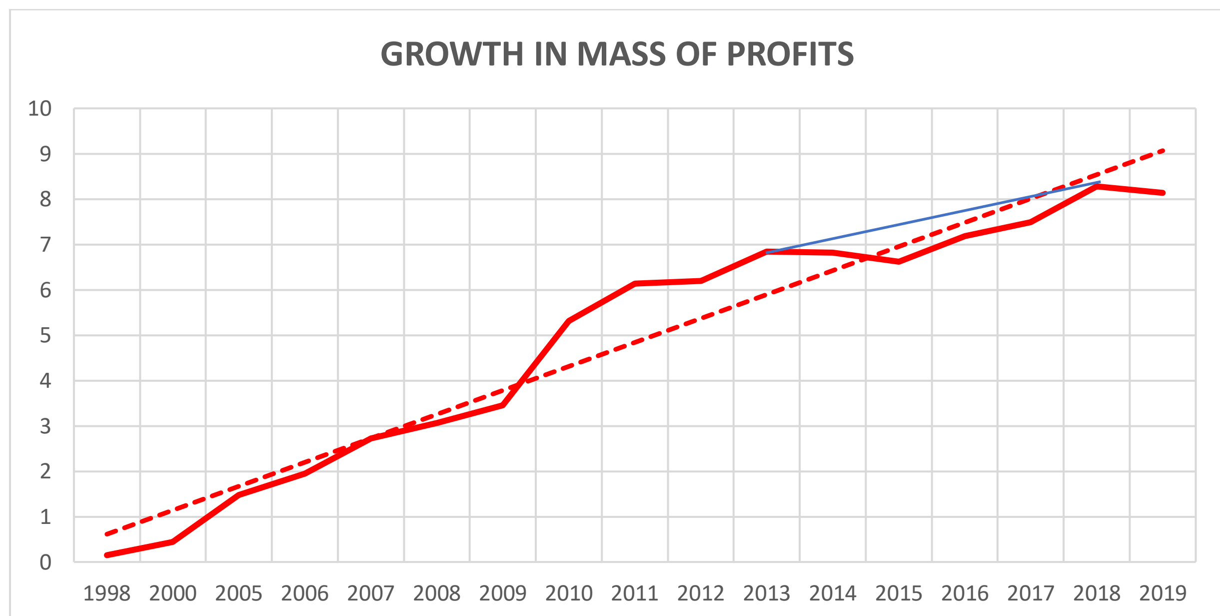
improving in China at the expense of the USA even if this is true at a micro level as between Apple and Huawei.

To capitalism, competition is a hall of mirrors. They blame wages and their competitors for the loss of profitability. What they cannot blame is the system itself. But this is what Marx did. The fall in the rate of profit is not simply the fall in profits because it combines the inter-relationship between input and output, in this case capital and profit. Thus a rising rate of profit can be the product of profits outpacing the rise in capital, or it can arise even when profits are falling if the value of capital is falling even faster as happens in the destructive phase of capitalism where capital is destroyed or depreciated.

It is true of course that for the time being the fall in the rate of profit is absolute in the USA but only relative in China. And this is happening in the USA despite the growth of internet companies with their low capital bases and high revenue per worker. (This can be explained by the fact that free to click or view does not produce new value but is reimbursed through transferred value, i.e. advertising revenue.)

By an absolute fall in the rate of profit Marx meant that the mass of profits is falling absolutely in the USA since 2014 while they are still rising modestly in China. However the trend in China which was slowing is now falling. China may be in transition from a relative fall in the rate of profit to an absolute fall. The below trend rise in Chinese profits between 2013 and 2018 is shown in the final graph below. It explains the relative fall in the current rate of profit in China.

Graph 8.



The productivity crisis endures.

The terrain of the trade war cannot be fully described without investigating productivity The table below details the latest report from The Conference Board (TED) which provides the most comprehensive and up to date data on global productivity. Only India has bucked the trend, but this should be taken with a pinch of salt or cardamoms. TED's one line summation of productivity trends reads: *Global Productivity Growth Remains Weak, Extending Slowing Trend*. This report was written earlier this year when the world economy appeared to be robust which led The Conference Board to project an increase in productivity in 2019 compared to 2018. Given what we now know, the fall in global production in 2019 means that global productivity is bound to be down on the figure for 2018.

International Productivity Trends.

	Labour productivity %			Total factor productivity %		
	2000-7	2010-17	2018	2000-7	2010-17	2018
Global	2.9	2.3	1.9		0.2	-0.1
US	2.6	1.0	0.9			
China	8.9		4.0			
Japan		1.0	-0.6			
Euro Area			0.2			
India	5.8		5.9			

Productivity levels. US = 100. Germany 96, France 94, UK 76, Japan 64 (!), China 22 and India 15.
(https://www.conference-board.org/retrievefile.cfm?filename=TED_ProductivityBrief_20191.pdf&type=subsite)

The comparison of productivity levels with the US is of course ludicrous as the US figure is boosted by its relatively large financial sector. Industrially speaking it now appears the US is lagging its competitors excluding China, in terms of productivity. The collapse in productivity growth latterly, underlines the exhaustion of the phase of globalisation. Most of the gains from "just in time", "global supply chains" etc were baked in by 2014. The lack of global industrial investment, now inflicting China itself, means that productivity is stuck on a plateau.

Even the much vaunted march of the robots (really machine learning) does not seem to be impacting on productivity. This is likely due to the rapid devaluation of production this is bringing about, which is depressing the output side (above the line) of the productivity equation. Thus while the input side of the equation, the hours worked, is falling this is offset by the devaluation of production globally. As far as the capitalist class goes, falling productivity and worsening demographics, is the stuff of nightmares. Not only is the goose that lays their golden eggs getting older it is losing its feathers.

Conclusion.

While it is clear that the rate of profit is absolutely higher in China than in the USA, both rates have fallen in relative terms. The outlook for profits in China remains negative as one of the props reversing the fall, the auto industry, had sales which fell more than anticipated. The profit recession globally is ongoing. Fundamentals continue to deteriorate.

Sentiment however remains fortified by the ongoing faith in central bank powers as we approach the vulnerable month of October. October has often been a trapdoor for markets.

It appears increasingly likely that some form of truce is being prepared for the trade war as negotiations approach in October. This is not a sign of strength on the side of either party or that one side is gaining the advantage over the other. It is a sign of weakness on both sides. In this sense it represents a bell weather for the world economy as a whole. A temporary truce is one more factor slowing down, but not reversing the slow motion crash that has occurred in 2019.

Notes.

Note 1. JPMorgan has created a new index called the "Volfefe Index" to track Trump's tweets and their effect on bond and share prices. If the NDC of the Democratic Party in the USA had half a brain between them they would impeach Trump on the basis of profiting from tweeting the market up and down instead of the spurious allegations of Trump's links with Russia. So should the Securities and Exchange Commission, but hey if it turns

out that the President is gaming the economy what does it say about the rest of them. https://www.latimes.com/business/story/2019-09-08/trump-tweet-index-volfefe

Note 2. It is most unusual for the rate of profit to sit below the rate of return. In the case of China, current assets also contain sizeable financial assets with a duration of under a year, not only inventory. This explains the anomaly. Thus total assets in the complex rate of return are inflated by financial assets on both the fixed and current sides. In the case of the rate of profit, based in part on circulating capital, financial assets are automatically excluded on the side of circulating capital, which in reducing the mass of capital over which profits are measured, yields a higher rate of profit. The rate of profit therefore has to be considered closer to the Marxist understanding of profitability as measured by capital. The only merit regarding the complex rate of return, derives from the side of the capitalist investor, as it enables them to determine the return not only on industrial assets held by Chinese Companies, but their financial assets as well.

Brian Green, September 2019