

CRISIS THEORY AND THE FALLING RATE OF PROFIT

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In the midst of crises, Marxists frequently appeal to the theory of the tendency of the rate of profit to fall as an underlying explanation.¹ In a recent presentation, for example, Michael Roberts attributes the current long depression to this tendency.² The tendency/law operates as follows:

- 1) Competition forces capitalist producers to invest in labour-saving technologies in order to preserve market share.
- 2) The value of the means of production consumed (c , the constant capital) tends to outstrip the value of labour power (v , the variable capital) employed.
- 3) The ratio of constant to variable capital employed (the productivity or value composition of capital, c/v) rises. If the rate of exploitation (s/v , the ratio of surplus value produced to variable capital employed) is unchanged, then the rate of profit, $(s/c+v)$ will fall.
- 4) There are, however, counteracting tendencies. The rate of exploitation of labour power can rise. Constant capital can become cheaper with increased productivity in the sectors supplying machinery, raw materials and intermediate products. But these counteracting tendencies are insufficient, it is held, to offset the downward trend in the profit rate in the long run. "Thus," Roberts concludes, "profitability tends to fall and capitalism tends towards crises, a movement interrupted only by short periods of growth."

This law paints a feasible theoretical scenario for the course of capital's profitability over time. Roberts bolsters his case by attaching an array of graphs and statistical data on falling profit rates as proof of the validity of the law. Whether the data actually support his argument depends on (a) the reliability and appropriateness of the data in relation to the theory and (b) whether there are mechanisms other than the one Roberts describes that can result in falling profits. So what might be wrong with his argument?

Marx approached his theoretical task by way of a critique of classical political economy. In the *Grundrisse* it was primarily Ricardo's version of the law of falling profits that Marx set out to critique and displace. Ricardo attributed falling profits to Malthus's thesis of the falling marginal productivity of land. This would mean rising food prices that would have to be matched by wage increases. Rising food prices would empower the landlord class and lead to rising rents particularly on the most fertile land. The profits of production capital would thus be squeezed between rising wages and rising rents. This would ultimately spell the end of industrial capitalism.

Marx was obviously attracted to this idea but he was loath to attribute social change to natural causes (such as natural scarcity or Malthusian limits). So he sought a reason for falling profits deriving from the internal contradictions of capital. This is what his version of the theory does. It is the ever-rising productivity of capital, forged out of the perpetual competitive search for relative surplus value, that leads the profit rate to fall. In the *Grundrisse*, Marx even went so far as to suggest that this would prove to be the ultimate "grave-digger" of capitalism.³

Marx derived the law under certain assumptions. He confined his theorizing throughout much of *Capital*, I have shown elsewhere, to what he called the sphere of law-like generality. He excluded any consideration of universal conditions (the vagaries of the relation to nature), particularities (distributional arrangements, class and other struggles over surplus value appropriation and the state of competition) and singularities (such as the whims of consumer fashion and the effects of state policies) from his

reasonings. He examined how capital functioned in what he considered a “pure” state.⁴ The fact that Marx excluded so much in his magnum opus should not be taken to mean that he thought the relation to nature, the particularities of distributional and market arrangements and the singularities of human choice were irrelevant or in any way minor features of any social system. His more historical and political writings suggest the exact opposite. But the theoretical landscape he chose to explore in *Capital*, and which encloses his theory of the falling rate of profit, is far more restricted.⁵ Marx spelled out even more specific assumptions in constructing his “general law of capital accumulation” in Volume 1 of *Capital*. First, capitalists have no problem selling their goods at their value in the market or re-circulating the surplus-value they gain back into production. All commodities trade at their value (with the exception of labour power); there is no problem in finding a market and no lack of effective demand. Secondly, the way in which the surplus value is “split up into various parts....such as profit, interest, gains made through trade, ground rent, etc”⁶ is excluded from consideration. Thirdly, Marx states: “in order to examine the object of our investigation in its integrity, free from all disturbing subsidiary circumstances, we must treat the whole world of trade as one nation, and assume that capitalist production is established everywhere and has taken possession of every branch of industry.”⁷

All these assumptions carry over to Marx’s derivation of the falling rate of profit in Volume 3. In both volumes Marx constructs highly simplified models of the dynamics of capital accumulation derived from the theory of absolute and relative surplus-value operating in a closed system characterized by perfect competition and no difficulties of realization or distribution of the surplus value. While the two models reveal important features of capital’s dynamics, they cannot be accorded the status of anything close to the absolute truth of those dynamics when capital is viewed as a whole. Both models are only as good as their common assumptions allow. The contradictory unity of production and realization is repressed as are the

contradictions between production and distribution, between monopoly and competition and much else besides. This severely restricts the applicability of the laws derived.

I am not criticizing Marx for dealing in such abstractions. He was a brilliant pioneer in teaching us how to come to grips with the complexities of capital accumulation by formulating abstractions and engaging in what we would now call modeling of economic systems. While Marx scrupulously lays out his assumptions in Volume 1 he does not do so in the case of the falling rate of profit theory. This is understandable given the preparatory nature of the materials that have come down to us. Some proponents of the law of falling profits have, however, given a different and in my view unfortunate reading to Marx's exclusions. If Marx could ignore questions of distribution (in particular the role of finance, credit and interest-bearing capital) in his statement of the law of falling profits then this implies, they suggest, that financialization had nothing to do with the crash of 2007-8. This assertion looks ridiculous in the face of the actual course of events. It also lets the bankers and financiers off the hook with respect to their role in creating the crisis.⁸

The draconian nature of Marx's assumptions should make us cautious about pressing his theoretical conclusions too far. The production of an increasingly impoverished industrial reserve army in Volume 1 and the tendency of the profit rate to fall in Volume 3 are contingent propositions. Both tendencies are driven exclusively by the dynamics of technological change. A reading of his original notebooks suggests that Marx increasingly viewed crises not as a sign of the impending dissolution of capitalism but as phases of capitalist reconstruction and renewal. Thus, he writes: "Crises are never more than momentary, violent solutions for the existing contradictions, violent eruptions that re-establish the disturbed balance for the time being."⁹ Crises that flowed from rising labour productivity did not disappear from his thinking, but they could and should be supplemented or

related to other contradictions, such as the periodic “plethora of capital” and the chronic tendency towards overaccumulation.¹⁰

Michael Heinrich, one of the German scholars responsible for editing the original manuscripts, has caused a storm of controversy by suggesting that Marx was far less enthusiastic about the law of falling profits than Engels’ edited version allows.¹¹ The protests on the part of adherents to the law have been, to put it mildly, vigorous.¹² Since I do not read German I will leave it to the scholars to sort this out. But I find Heinrich’s account broadly consistent with my own long-standing skepticism about the general relevance of the law. We know that Marx’s language increasingly vacillated between calling his finding a law, a law of a tendency or even on occasion just a tendency. Marx made no mention of any tendency of the rate of profit to fall in his political writings such as *The Civil War in France*. Even in Volume Three of *Capital*, where he did consider the two crises of 1848 and 1857, these crises were depicted as “commercial and financial crises” and were analysed in the chapters on banking, credit and finance. Only passing reference is made to the falling rate of profit in these analyses.¹³ We also know that Marx never went back to the falling rate of profit theory – in spite of its evident incompleteness and supposed importance – after 1868.¹⁴ While we cannot say why this was so, it does seem passing strange that Marx would chose to ignore in the last dozen years of his research what he had earlier dubbed in the *Grundrisse* as “the most important law of political economy.”

“At the end of the 1870s,” Heinrich observes, “Marx was confronted with a new type of crisis: a stagnation lasting for years, which is distinguished sharply from the rapid, conjunctural up and down movement which he had hitherto known.” The idea of crises as “momentary” disruptions must have no longer seemed adequate. “In this context, Marx’s attention is drawn to the now internationally important role of the national banks, which have a considerable influence upon the course of the crisis. The observations reported by Marx make clear that a systematic treatment of crisis theory is not possible on the immediate basis of the law of the tendential fall in the

rate of profit (as suggested by Engels's edition of the third volume of *Capital*), but rather only after a presentation of interest-bearing capital and credit." This would explain why the crises of 1848 and 1857 are called "commercial and financial crises" and examined in the chapters on banking and finance. If, however, "the national banks play such an important role," says Heinrich, "then it is very doubtful whether the credit system can be categorically presented while excluding an analysis of the state. The same holds for the world market."¹⁵ Marx evidently found it necessary to abandon the formal assumptions within which he had earlier confined his derivation of the law of falling profits in order, presumably, to make it relevant to the dynamics of accumulation actually occurring. He also left the level of generality behind and incorporated the particularities of distribution (the credit system in particular) and market competition into his theorizing.¹⁶

Heinrich concludes that "a systematic treatment of crisis theory cannot....follow immediately from the 'law of the tendency of the rate of profit to fall,' but only after the categories of interest-bearing capital and credit have been developed."¹⁷

How seriously we should take Marx's apparent vacillation and ambivalence depends not only upon what we make of his draconian assumptions but also on the strength and generality of the counteracting tendencies he identified. Proponents of the law typically downplay the counteracting tendencies. Marx lists six of them in *Capital* but "two of these (foreign trade and an increase of stock capital) fail to conform to his initial assumptions (a closed economy and a concept of surplus value that precludes the facts of distribution)."¹⁸ But under real crisis conditions we cannot afford, as his commentaries on the crises of 1848 and 1857 show in Volume 3, to exclude questions of finance and stock capital since they play such an important part in the form of appearance if not the underlying causes of crises. Nor can we afford, on the evidence offered in the chapters on money and finance to ignore the vacillating influences of foreign trade imbalances (bullion drains as they were then referred to). Marx emphasizes of course the two counteracting

influences given by Roberts, but adds “depression of wages below the value of labour power; and an increase in the industrial reserve army” which protects certain sectors from the ravages of technological progress by lessening the incentive to replace labour power by machines (technologies invented in Britain were not deployed there, he points out in volume 1 of *Capital*, because of surpluses of labour power but were used in the United States where labour power was scarce).¹⁹

In the *Grundrisse*, Marx lists a variety of other factors that can stabilize the rate of profit “other than by crises.” If the profit rate is to be resuscitated then one way a crisis can do so is to produce a massive devaluation of the existing constant capital (the fixed capital in particular). But Marx also mentions, ‘the constant devaluation of a part of the existing capital (by which I presume he means premature obsolescence and devaluations particularly of fixed capital equipment as a result of technical change), the transformation of a great part of capital into fixed capital which does not serve as agency of direct production (investment in public works and urbanization, for example, all of which could circulate in return for interest only without any regard for profit of enterprise) and unproductive waste (such as military expenditures, which Marx considered equivalent to making commodities to be ditched in the ocean). He also importantly notes that the fall in the rate of profit can be “delayed by creation of new branches of production in which more direct labour in relation to capital is needed, or where the productive power of labour is not yet developed.” And finally, monopolization is treated as an antidote to the falling rate of profit presumably because of the reduced competitive pressure to innovate.²⁰

This is “a somewhat motley array of factors” to be taken into account.²¹ Some of them (such as monopolization and the opening up of new production lines) could be of overwhelming significance. Others, such as investment in fixed capital on the land and urbanization more generally are, as I have also tried to show elsewhere, crucially connected to crisis formation and resolution to the point where they are now playing a critical role (as was

most obviously the case in 2007-8). The state-monopoly capitalism theorists of the French Communist Party towards the end of the 1960s considered the circulation of collective fixed capital in return for interest only as one of the major means for offsetting the falling rate of profit (it meant elements of collective constant capital could circulate at a discount as it were).²² The history of getting out of crises by “building houses and filling them with things” in the United States is well-known (and was crucial in the 1960s) and is now being replicated in China where a quarter of the recent growth in GDP has been attributed to housing construction alone. Conversely, property market crashes are a familiar trigger for more general crises (with 2007-8 the most obvious recent example but 1928 in the USA being a critical and overlooked historical example).²³

It is not hard to add a few more countervailing influences. Engels, for example, recognized that speed-up and accelerating turnover times in both production and circulation (subjects examined in Volume 2) could affect the profit rate and inserted (I think quite correctly) a chapter on that topic into volume 3 of *Capital* but did not take up the impact on the falling rate of profit.²⁴ This feature has been generally ignored by the proponents of the law. Marx vaguely indicated other possibilities. If productivity in a given industry doubles then the unit prices of the commodities produced can be cut in half and the total output can be doubled (provided there is a need, want or desire for the commodity backed by sufficient effective demand). The effect would be to keep employment (and surplus value production) in industry constant even as labour productivity doubled. With rising effective demand backed by unfulfilled needs, wants and desires, employment and surplus value production could even increase. This is what in effect happened with the history of Henry Ford’s assembly-line production of the Model T and we have witnessed a similar phenomena in recent years with computers and cell phones. In all these cases, a consumer world was created in which a luxury quickly became a necessity and where rising (credit-based?) effective demand expanded the market for the good. Rising productivity and rising

employment and surplus value production can comfortably go hand in hand in certain circumstances. It is hard not to conclude that at the end of the day profits could just as easily rise or fall. Here Engels intervention was crucial because it was he who added the fateful words in volume 3 of *Capital*: “In practice, however, the rate of profit will fall in the long run, as we have already seen.”²⁵

In the subsequent chapter in Volume 3 on “The Development of the Law’s Internal Contradictions,” matters get much more interesting. The misleading title of the chapter was imposed by Engels. It implies that the law/tendency remains intact but has inner contradictions when the chapter is really about what happens when the assumptions made in deriving the law are dropped. The result is a far vaster portrait of the processes of crisis formation with multiple cross-cutting contradictions. The language changes such that crises are here firmly represented as violent explosions that serve to restore equilibrium (not moments that betoken the end of capitalism). Problems of realization in the market, the production of the world market, relations with non-capitalist social formations, degrees of centralization and decentralization of capital, monetary disturbances and speculative excesses located within the credit system, devaluations and the problematics of fixed capital circulation, are all introduced along with concepts such as the overaccumulation of capital, the role of the so-called “plethora” of capital and the chronic inability to meet the needs of whole populations in a “humane way.” These all become part of the story of crisis formation.²⁶ Marx here poses multiple questions where Engels editing suggests he had clear and unequivocal answers. “The problem is,” says Geert Reuten, one of those deeply familiar with the manuscripts, “that Engels, in his editorial work, polished away most of Marx’s worries and so made it appear as if *Das Kapital*, Volume III was a near-to-final text instead of just a research manuscript....”²⁷ It is out of this maelstrom of intersecting forces and multiple contradictions that I have constructed over the years my own sense of how crises unfold

under capitalism and how the crisis tendencies never disappear but get moved around.²⁸

So what were some of the other contradictions and mechanisms that might lead to a falling rate of profit? In Volume 3 of *Capital*, for example, Marx suggests that “the ultimate reason for all real crises always remains the poverty and restricted consumption of the masses, in the face of the drive of capitalist production to develop the productive forces as if only the absolute consumption capacity of society set a limit to them”.²⁹ In Volume 2 we also read: “Contradiction in the capitalist mode of production. The workers are important for the market as buyers of commodities. But as sellers of their commodity – labour power – capitalist society has the tendency to restrict them to their minimum price. Further contradiction: the periods in which capitalist production exerts all its forces regularly show themselves in periods of over-production; because the limit to the application of the productive powers is not simply the production of value, but also its realization. However, the sale of commodities, the realization of commodity capital, and thus of surplus value as well, is restricted not by the consumer needs of society in general, but by the consumer needs of a society in which the great majority are always poor and must always remain poor.”³⁰ This turns up in the crucial chapter fifteen of Volume 3 as a restriction on the capacity for realization due to “antagonistic conditions of distribution, which reduce the consumption of the vast majority of society to minimum level.”³¹

Marx, however, confuses matters by exploring opposing possibilities. After remarking that it is “a pure tautology to say that crises are provoked by a lack of effective demand or effective consumption” because capitalism “does not recognize any other form of consumer other than those who can pay,” he then adds “that crises are always prepared by a period in which wages generally rise, and the working class actually does receive a greater share in the part of the annual product destined for consumption.”³² Crises can therefore occur in periods of rising working class wages and/or rising expectations as well as in periods of wage repression and inadequate

demand. Marx had shown in his general law of capital accumulation how wage increases accompanying phases of vigorous accumulation would cut into profits and so diminish accumulation.³³ Crises can come, we can conclude, from quite different directions. If wages go too high then there is a crisis of accumulation as the profit share contracts while if wages are too low then lack of effective demand will pose a problem. Crises consequently depend on conjunctural and even highly localized conditions.

Marx's theory of the falling rate of profit should be treated as a contingent rather than a definitive proposition. It says, in effect, that if there is a fall in the rate of profit here is one of many ways in which it could come about.³⁴ Whether or not this particular mechanism is the one at work depends, however, upon careful analysis of actually existing dynamics. My own guess is that crises produced by this mechanism are relatively rare.

This in no way contradicts Marx's broader point concerning the destabilizing and often disruptive effects of technological change in the history of capitalism. These effects have frequently been implicated in crisis formation. In the case of fixed capital formation and use, for example, accelerating technological changes have sparked quite massive waves of devaluation of the existing fixed capital including the massive amounts invested in the built environment and in physical infrastructures. We should take seriously Marx's observation that "the cycle of interconnected turnovers embracing a number of years, in which capital is held fast by its fixed constituent part, furnishes a material basis for the periodic crises."³⁵ This observation parallels some of the arguments put forward regarding the role of devaluation of existing fixed capital as a counteracting influence over the profit rate. I find it interesting, however, that Marx's explanation of this material basis for periodic crises has drawn very little commentary compared to that given over to the falling rate of profit!

The waves of technological change that have had the effect of creating a disposable reserve army of unemployed workers can likewise feed back into the circulation of capital as diminishing effective demand. The sharp crash

that initiated the crisis of 2007-8 looks very different from the long-drawn out saga of deindustrialization and devaluation that swept across traditional industrial production districts throughout the world after 1980 or so. The factories in the Ruhr, the American Mid-West, industrial Britain and even in Mumbai were closed down, in part as a result of revolutions in the technologies of transport and communications that made a new globalization possible. While some may reasonably claim that these were all localized and not general crises engulfing places like Detroit, Essen, Sheffield, Mumbai and the industrial cities of Northern China, it turns out that there never has been a truly global crisis where everyone everywhere was simultaneously engulfed, even within what we broadly refer to as “the capitalist world” (i.e. not including that part of the world outside of capital’s trading networks). There were in fact plenty of places scarcely affected by the events of 2007-8 (much of Latin America for example) and the long-drawn out and painful deindustrialization of the traditional centers of manufacturing during the period 1980 to 2000 was felt all across the capitalist world.

So has there been a general tendency for the rate of profit to fall over time as many Marxist economists maintain? And how does that falling rate, if it exists, explain a crisis which on the surface at least was a commercial and financial crisis that began in the housing markets of California, Arizona, Nevada, Florida and Georgia (with outliers in Spain, Ireland, Hungary and various other countries) before going world wide through contagions in a global financial system that infected all manner of sectors differentially with different intensities in different places and times?

Before submitting pacifically to the weight of the empirical evidence that has been amassed by Roberts and many other proponents of the falling rate of profit theory, some serious questions have to be asked. Since I am not inclined or qualified to attempt any sophisticated counter-analyses of data sets, I shall confine my remarks to some very general observations on the difficulties of assembling relevant and meaningful data.

Data that show a falling rate of profit do not necessarily confirm the existence of the specific mechanism to which Marx appealed. This is, for me, the most important objection to much of the literature on the subject. Profit rates can fall for any number of reasons. As we have seen, lack of adequate aggregate effective demand in the market could produce falling profits as could rising wages impelled on by heightened class struggle. When technological change is introduced then the net effect is to produce greater inequalities. In the absence of any opposition or countervailing force the rich get richer and the poor poorer. This is how Marx's general law of capital accumulation works. On the other hand, an organized working class backed by powerful state institutions could force wage rates so high as to generate a crisis of falling profits. This happened 1965-75 in North America and Europe as wages rose, profits fell and productivity stagnated thanks to recalcitrant working class power.

Resource scarcities and constraints (particularly with respect to food, energy and raw materials) can lead to falling profits by the mechanism that Ricardo described. There is no need to appeal to Malthusian nature-imposed limits to make this argument. Scarcity can be orchestrated through speculative activity and restraints on effective demand. Scarcities of oil and food are clearly manipulated to extract higher rents. Increasing monopoly power and, perhaps even more important for our times, the rising powers of rent extraction can lead to falling profits on industrial capital. Marx conceded that falling rents could augment profits so why not also accept that rising rents would have the opposite effect? Rent on money capital itself (interest) is rationed by conditions of demand and supply, competition and the factional class power of the financiers. The rentiers, far from suffering the euthanasia that Keynes wishfully predicted, are currently carving out niches to procure greater and greater shares of the surplus at the expense of industrial capitalists, which means falling returns for the direct producers.

There are all sorts of reasons why profit rates might fall and no amount of graphs depicting falling profit rates give us any reason to accept any one

particular mechanism rather than another. The only way forward here would be to measure the direct impacts of changing labor productivity on profit rates. In measuring labour productivity, Marx distinguished between the organic and the value compositions of capital – the former being defined by the ratio of constant to variable capital within an enterprise or even within a whole sector or “department” while the latter measures productivity for capital as a whole. Most theorists treat the two terms as synonymous when they are not. Both cases are highly sensitive to turnover times (of fixed capital in particular) and to degree of vertical integration in production.³⁶ The form of industrial organization is a crucial issue to its measure. Imagine an iron ore mine on top of which is built a steel plant that feeds the production of cars directly. The constant capital would be that used in the iron mine plus the energy inputs and fixed capital in the other phases of such an integrated production system. Most of the total value would be attributed to that added by labour. Now split the process up into separate firms producing iron ore, steel and then cars. The constant capital on average would increase while the labour share would decrease markedly. While the example I use may seem a bit extreme, consider how the increase in subcontracting these last forty years might have affected value compositions.

While it is possible to make sense of the average organic composition of capital within an enterprise or even in industries or “departments” (as specified in volume 2 of *Capital*) the value composition for capital as a whole appears as at best a tautological and at worst a totally incoherent concept. This is so because the only measure of productivity relevant to capital is surplus value production, and this is what changes in productivity are supposed to explain!³⁷ There are all sorts of other problems: is constant capital the value of capital employed (including fixed capital of long life?) or the value of the capital used up (the fraction of fixed capital value worn out) in a production period (of what length?)? Are capitalists interested in the rate or mass of surplus value?

The second major problem arises because Marx specified his theory in value terms while the data used to prove or illustrate it are expressed in money terms. Money is not equivalent to value but an indispensable representation of value.³⁸ The relation between value and its representation as money is deeply contradictory: the generality of immaterial social values was traditionally represented by the particular materialities of gold and silver as commodities; this is how the immateriality of a social relation acquired its material representational form. The problem is that the particular conditions of gold production stand in for the generality of all human labour and that the sociality of value is thereby opened up to appropriation by private persons. Money then acquires a social power which can be used as an instrument of domination and class rule. When the metallic base to the world's monetary system was abandoned in the 1970s, however, money took on a life all of its own such that it could diverge substantially from that which it is supposed to represent. The disciplinary power once exercised by gold and silver is replaced by the disciplinary powers of the central banks. The fetish focus of the monetary authorities on inflation control after 1980 or so is a stark indicator of this shift. On the other hand, when the Federal Reserve adds trillions to the money supply through quantitative easing this has no necessary relation to value creation. Most of it seems to have ended up in the stock market to boost the asset values that are so important to the rich and powerful.

There is, Marx notes, nothing to prevent not only a quantitative but a qualitative divergence between market prices and values such that honor, conscience, raw land, carbon emissions futures and god knows what can be traded as if they are commodities when they clearly are not.³⁹ Investing in corruption (or its legalized version called lobbying) is big – and lucrative – business in our times. Some of the most profitable businesses are illegal and the various mafias around the world are major centers of capital accumulation. Successful lobbying can raise profits substantially in certain sectors without investing anything in production.

The profitability of housing construction is heavily dependent on speculative movements in housing prices and rent extractions (both land and interest) via the credit system. The value profit rate as Marx defined it has little or no relation to the profitability of Nike shoes whose monetary value has been augmented by a successful branding campaign (do advertisers produce value?).⁴⁰ A stock market price depends as much upon reputation as it does on productive activity and capacity. The gap between value creation and what money does grows wider and wider. This contradiction between value and its representation is usually ignored by those who use monetary measures as definitive proof of a theory specified in value terms.

This does not mean their data are worthless. Quite the contrary. We live in the world of money and operate in the shadowy presence of the value it represents. We respond necessarily to the money signals of profitability. The profit rate is real enough – after all, businesses close down if they do not make enough of it. These are the monetary signals that affect our lives, our behaviors and frequently guide our actions. Policy makers look at monetary aggregates and devise strategies to guide the economy – also a very real fiction – this way or that depending upon whose class interest is being served. Convincing evidence that the rate of profit specified in money terms is falling is a significant social fact which affects us all and to which we typically react. Studies of what has happened to monetary profit rates around the world are vital.

But there are some further tricky questions that have to be negotiated. There is a gap between where profit (value) is produced and where it may be realized. Value produced in the factories of China may be realized by Walmart in the United States and part of what Walmart realizes in Oklahoma may be taken by the rentiers or the financiers in New York City.⁴¹ The recorded rate of profit in manufacturing may be falling because the extractions of the merchants, the financiers and the landlords may be rising. The marginal profit rate of Apple (in the USA) is reported to be 27 percent whereas Foxconn (in China) which produces Apple computers reports three

per cent. The power relation between merchant and producer capital prevents the equalization of the profit rate. Conversely, as Marx points out, profit rates in industry may rise with reductions in rents and taxes. The direct producers may concede higher wages and receive lower profits but the workers may then have their gains extracted back by predatory landlords, telephone and credit card companies, merchants, and the like, who practice a politics of accumulation by dispossession on the working classes. Capital is a flow as are the revenues generated out of value production. The patterns of such flows of capital and revenues are intricate and it is not clear that data collected at one point in the system accurately represent the movements in their totality.

All sorts of other considerations can affect reported profits. Much of the world's trade occurs within corporations and they can fix their transfer cost pricing arrangements across currency borders as to either disguise their profits or record them in that jurisdiction with the lowest tax rate. It sometimes seems that the only reason they report any actual profits at all is to jack up their stock price. The monetary profit data tell us something, but exactly what, is not always easy to assess.

There are good reasons to be skeptical of some of the data sets available. Reports in the business press these days suggest that businesses in the United States are operating at a high rate of profit while the data series that Roberts and others produce point to the opposite conclusion. A report from the Federal Reserve shows a startling growth in the mass if not the rate of profit. "From 2000 to the present, quarterly corporate after-tax profits have risen from \$529 billion to \$1.5 trillion. On an annual basis, growth was from \$2.1 trillion to \$6 trillion in annual after-tax profits."⁴² The business press also reports that the rate of reinvestment is at an all time low and that there appears to be little interest in expansion (hence low growth and sustained wage repression) which in some quarters is attributed to lack of effective demand in the market (due in part to lack of reinvestment). There is a lot of anecdotal evidence in financial publications to indicate a strong revival in

profit rates in the United States coupled with restrictive profit opportunities because of lack of demand and austerity politics (the three big centers of lagging effective demand in the US are reported to be the housing market and state and federal government expenditures restrained by austerity politics). Most of the data sets on profit rates are compiled from within the nation state framework of data reporting and in all but a very few instances make no pretence of representing the global situation.⁴³ What the profit rate is in China, Indonesia, India, Bolivia and Mali (to say nothing of contemporary Syria and Iraq) and how all of this might be aggregated into some global data on the rate of return on capital is simply unknown if not unknowable. A data set compiled for the USA is useful in its own right, of course, but it cannot be taken as evidence of what is happening to global capital even assuming all the other objections already raised are laid aside.

There is, however, one data set which has potential relevance as an indicator of what might be going on in the realm of value production and which is relatively easy to procure. If the general theory of the tendency for profit rates to fall is correct, then the spread of labour-saving technological changes (forced by the competitive pursuit of relative surplus value) should mean a tendency for the number of waged workers employed by capital to decrease. This was something that Marx himself freely acknowledged.⁴⁴ We know that employment in agriculture has dramatically decreased with industrialization and that the proportion of the global labour force in manufacturing has remained fairly constant (this has been true even in China) because of automation. This tends to support the falling rate of profit thesis.

But when we look at the overall labour participation rate on a global scale, we see a massive increase in the global labour force. An ILO report from 2007 concluded, for example, that “in 2005, there were an estimated 3.05 billion individuals in the global labour force, a figure that represents an increase of more than 1.1 billion – more than 35 per cent – since 1980.”⁴⁵ Much of the growth in these years was driven by population growth and the accession of ex-communist states to the world market. Over a much longer

time horizon the movement of women into the labour force has been hugely significant along with the destruction of peasant ways of subsistence living. Without dwelling on the regional details and differences (important though these are) this clearly does not suggest any decrease in the global labour force available for value creation and surplus value extraction. The extra 1.1 billion workers suggests a dramatic increase in the prospects for rising rather than falling surplus value extractions and possibly rising rather than falling profit rates.

The only argument against this conclusion is that the increase in the active waged workforce was absorbed in non-productive labour or that it was not employed by capital at all (e.g. as security guards for the ultra rich). Much of the influx is certainly attributable to the growth of the so-called service economy rather than to increasing employment in agriculture, mining and manufacturing. But the distinction between unproductive and productive labour is a difficult one. Like many of Marx's categories it becomes murkier and murkier the more he distanced himself from Adam Smith's views and the more he embraced the idea that value production involved the "collective" rather than the individual labourer and the more he sought to integrate science, technology and knowledge production into the concept of value-producing activities.⁴⁶ Even sticking with his more restrictive definitions, there are plenty of situations where what we normally call services are clearly productive of value.

For example, Marx insisted that transportation is value and potentially surplus-value producing.⁴⁷ The booming logistics sector is rife with value and surplus value production. And while General Motors has been displaced by MacDonaldis as one of the largest employers of labour in the US why would we say that making a car is productive of value while making a hamburger is not? Restaurants are value and surplus value producing (even waiters can be viewed as part of the collective labourer in value production). All we then have to do is to suggest that the subcontracted designers, branding and advertising firms, scientists and technical personnel, even consultants and

accountants are all part of the collective labourer and we are well on the way of taking on board a very significant portion of the 1.1 billion extra workers in the field of value production. Mis-perceptions arise because what are conventionally defined as services often turn out to be productive activities. In much of the advanced capitalist world most of the large factories have been long-gone and so it would seem that value-and surplus-value producing labour has disappeared. But when I stand at the corner of 86th and Second Avenue in Manhattan I see innumerable delivery, bus and cab drivers, the workers from Verizon and Con Edison digging up the streets to fix the cables, down the street the water mains are being fixed while other workers are constructing the new subway, workers are putting up scaffolding on one side of the street while taking it down on the other, the coffee shop is making coffees and in the local 24-hour diner workers are scrambling eggs and serving soups. Even that guy on the bicycle delivering Chinese take-out is creating value. These are the kinds of jobs, in contrast to those in conventionally defined manufacturing and agriculture, that have increased remarkably in recent times and they are all value and surplus value producing. From this standpoint Manhattan is an island of huge value creation, though in the case of restaurants most of the surplus value is sucked out by escalating rents which means that the proprietors, after taxes and interest are also paid out, have no option except to super-exploit their workforce as well as, in many instances, themselves in order to eke out a marginal profit of enterprise. In Marx's day less than five percent of the world's population was urbanized and eating out was the exception rather than the rule. Now more than half the world's population lives in cities and eating out (even if it is only at the local hot-dog or tamale stall) is much more common and these urban jobs have proliferated remarkably. If only half of those employed in the production and reproduction of urban life are employed in the production of this sort of value and surplus value, then this easily compensates for the losses due to the industrialization of agriculture and the automation in conventional manufacturing.

This rapidly expanding value-producing work force has very little collective power (compared to the factory labour of yore) to curb exploitation. The conditions for rising rather than falling profitability are very much in place. Certainly the mass of surplus value has been increasing even if the rate of profit may have been falling.

Looking to the future, it is unlikely that such a huge expansion in labour force participation will ever be repeated. There are still substantial reserves of labour untapped in Africa and some in the Middle East and South and SouthEast Asia. The labour reserve in rural China is not entirely tapped out. But the absorption of women into the labour force and the entry of China and the ex-Soviet Empire into global labor market competition cannot be repeated and any falling off in rates of population growth (already negative in much of Southern Europe and Japan) might change conditions for profitability sometime in the future. Right now, however, those who attribute the difficulties of contemporary capitalism to the tendency of the profit rate to fall are, judging by this evidence of labour participation, seriously mistaken. The conditions point to a vast increase and not a constriction in surplus value production and extraction.

It may seem I am unduly picking on the falling rate of profit theorists and singling them out for criticism. I do so, however, because of all the divergent theories of crisis that have emerged from the Marxist tradition, this one holds an iconic position within the Marxist imaginary and it is typically presented in such a way as to exclude consideration of other possibilities.

There is, I believe, no single causal theory of crisis formation as many Marxist economists like to assert. On a variety of occasions, Marx himself made this clear. "The contradictions existing in bourgeois production," Marx wrote, "are reconciled by a process of adjustment, which, at the same time, however, manifests itself as crises, *violent fusion of disconnected factors operating independently of one another yet correlated.*" (my italics).⁴⁸ There is, throughout his work, a great deal of investigation not only into the different contradictions but also into the kinds of disconnected but correlated factors

that come together in particular crises. There is no point in trying to cram all of the fluidity and complexity of capital circulation into some unitary theory of a falling rate of profit. One of the beauties of reading and re-reading Marx is to encounter those eureka moments where he reveals through reflection yet another moving contradiction that produces yet another means whereby crises can be generated. Re-reading chapter 15 in Volume 3 on the unfolding of the law's contradictions without Engels's gloss and misleading title is a revelation. It lends support to the idea that even at the systemic level capitalism moves its crisis tendencies around, geographically, sectorally and from one nodal point to another (as money, commodity or production, for example) within the overall circulation process of capital that Marx defines.⁴⁹ When, for example, the grand financiers of the reconstruction of Paris – the Pereire brothers who had, as Marx put it, the charming character of swindler and prophet – went bankrupt in 1867 as their credit empire constructed out of the rebuilding of Paris fell into ruins in part because of the machinations of the “gold bugs” like the Rothschilds; and when the municipal finances fell apart forcing Haussmann from power and crashing employment in such a way as to set off a wave of political protests that produced the Paris Commune (in the context of a foolish war and the siege of Paris by the Germans), when all of this happened then what point would there be in self-satisfiedly proclaiming that it is all a consequence of some hidden tendency for the rate of profit to fall?⁵⁰ And when a similar scenario unfolds in New York City in the speculative property market crash of 1973 followed by the near bankruptcy of New York City in 1975, which proved the teething ground for the practices of neoliberal structural adjustment and austerity politics along with a politics of “save the banks and sock it to the people” (a politics blatantly repeated in and after 2008) all of which looked deeply reminiscent of what had happened in Paris in 1867, then why not construct a crisis theory framework that speaks directly to such events?⁵¹

Investments in what Lefebvre and I call “the secondary circuit of capital” or “the built environment” are always tricky to control and calculate

and they entail periodic phases of speculative overproduction as well as extensive resort to credit lest hoarding (to cover the replacement of long-term investments) completely stifles the circulation of capital.⁵² The crisis of 2007-8 originated with investments precisely of this sort (as did the crisis of 1867 in Paris, the 1928 property market crash in the United States that ushered in the great depression, and the bankruptcy of New York City in 1975 and its miserable aftermath). All we have to do is to connect the problems of investment in the secondary circuit of capital to the way in which “monetary disturbances” (mentioned in Volume 1 of Capital) periodically assert themselves as absolute contradictions and we have a ready-made framework to theorize such events.⁵³ And in a way Marx already foretold all this in his commentary on how the circulation of fixed capital provided a material basis for crisis formation!

But something else went on in the recent crisis that is worthy of note. Between 2006 and 2010, 13 million foreclosure notices were issued in the United States, 9.3 million of which led to eviction notices that displaced more than 7 million households, perhaps as many as 30 million people. The US was not the only country to experience such a catastrophe. In Hungary more than a million people lost their homes. The socialized housing that was massively privatized after the fall of communism quickly became a victim of speculative market forces. Possibly half a million houses were lost in Spain and significant numbers in Ireland and elsewhere. This was an enormous loss of asset values – a particular form of devaluation that can nearly always be identified as part of capital’s struggle to exit crisis conditions - for a very significant number of people and, as of 2014, the foreclosures are still progressing though at a lower rate.⁵⁴

2007-8 was the culmination of a series of crises in which accumulation by dispossession, orchestrated largely through the credit system, became a significant lever of crisis formation. This was true in the East and SouthEast Asian crisis of 1997-8 and the multiple debt crises that preceded it. Just to

add to the mayhem, the vulture financiers and the vampire rentiers have become ever more prominent these days as the barbaric outriders of the brutalist wing of the capitalist class as it strives for endless and limitless accumulation by dispossession within a restricted terrain of profitable possibilities. Their activities in buying up debt or foreclosed houses at distressed prices while renting them out and waiting for the speculative gain signal a cannibalistic mode of doing business that is far from minor or marginal to capital's reproduction. The crisis in the housing market not only meant the massive devaluation of assets within what Marx called "the consumption fund" from the United States to Iceland, Ireland, Spain, Eastern Europe and beyond; it also created the opportunity for the transfer (much of it illegal) of the material assets from vulnerable populations to the hedge funds and private equity groups whose managers belong to the top one percent. This has been one of the most massive transfers of wealth from one class to another in U.S. history (paralleling what happened to family farmers in the 1930s). The ruling class, as always, never lets a good crisis go to waste!

In this context I find it interesting that Marx re-examined the concept of primitive accumulation in his chapter on "the law's internal contradictions." No longer construed as something buried in the past, it re-emerges as "a constant process in the accumulation and concentration of capital, before it is finally expressed here as the centralization of capitals already existing in a few hands and the decapitalization of many." This process of decapitalization, or what I call "accumulation by dispossession," Marx argues, "would entail the rapid breakdown of capitalist production, if counteracting tendencies were not constantly at work alongside the centripetal force, in the direction of decentralization."⁵⁵ Is this not a source of contradiction within contemporary capitalism? Is the current chronic inability of the capitalist class to decentralize its wealth and power and put a stop to its penchant to rob the world of asset values a significant element in the current malaise?⁵⁶

It is within this maelstrom of conflicting forces that the multiple contradictions and crisis tendencies internal to capitalism – with all their potentialities for creative destruction, renewal and heightened potency for radical social change – are perpetually re-created even as they appear in different guises. If this is the surface appearance with which we are daily confronted, as it surely is, then we should be looking deeper into the structure of the multiple contradictions of capital to identify what is going on within and beneath.⁵⁷ The relation between what is systemic and what is conjunctural begins to fuse even as it sharpens. I believe this was one of the determinations that Marx was coming to as his studies progressed. And even if it was not, I think the evidence of capital's complicated history would suggest that this is how we should proceed in the here and now. While Marx was, I think, correct to never let go of the principle that of the many barriers that capital accumulation had to confront, the greatest was capital itself, he needed an increasingly nuanced theory of how and why this might be so. As good historical-geographical materialists, we should surely be pursuing the same goal.

Notes

- 1 Among others see Carchedi, G., *Behind the Crisis: Marx's Dialectics of Value and Knowledge*, Brill, Leiden, 2011; Kliman, A., *The Failure of Capitalist Production: Underlying Causes of the Great Recession*, London, Pluto Press, 2011; Shaikh, A., "The First Great Depression of the 21st century," (see <http://homepage.newschool.edu/~AShaikh/>); Moseley, F., *The Falling Rate of Profit in the Postwar United States Economy*. New York: St. Martin's Press, 1990; Maito, Esteban Ezequiel, "The Historical Transience of Capital: The Downward Trend in the Rate of Profit since XIX Century," unpublished paper, University of Buenos Aires, Argentina, n.d.
- 2 Power point presentation: Michael Roberts, "The Nature of Current Long Depression," Marxism 2014; 11 July 2014
- 3 Marx, K., *Grundrisse* p.750-54
- 4 I have documented in some detail the role these distinctions played in guiding Marx's practice throughout *Capital* in Harvey, D., "History versus Theory: a Commentary on Marx's Method in Capital," *Historical Materialism*, volume 20, Issue 2, 2012, pp.3-38; see also the 'Introduction' to Harvey, D., *A Companion to Marx's Capital, Volume 2*, Verso, London, 2013.
- 5 This is the point that Calinicos does not understand in his recent dismissal of my arguments regarding the playing out of Marx's exclusions throughout the three volumes of Capital. See Calinicos, A., *Deciphering Capital: Marx's Capital and Its Destiny*, London, Bookmarks, 2014, pp.21-2.
- 6 Marx, K., *Capital Volume 1*, pp. 709-10
- 7 Marx, K., *Capital Volume I*, p.727
- 8 Andrew Kliman has been most strident in his claim that the crisis had nothing to do with financialization.
- 9 Marx, K., *Capital Volume 3*, p.357
- 10 This comes out very strongly in Marx, K., *Capital, Volume 3*, chapter 15; See also Harvey, D., *The Limits to Capital*, Oxford, Basil Blackwell, 1982, pp. 176-203.

- 11 Heinrich, M. "Crisis Theory, the Law of the Tendency of the Profit Rate to Fall, and Marx's Studies in the 1870s," *Monthly Review*, Volume 64, Issue 11, April 2013. See also: Heinrich, M., "Reconstruction or Deconstruction? Methodological Controversies about Value and Capital, and New Insights from the Critical Edition," in Bellofiore, R. and R.Fineschi (eds) *Re-Reading Marx: New Perspectives after the Critical Edition*, London, Palgrave Macmillan, 2009, pp.71-98; Thomas, P. and G.Reuten, "Crisis and the Rate of Profit in Marx's Laboratory," in Bellofiore, R., G.Starosta, and P.Thomas, (eds), *In Marx's Laboratory: Critical Interpretations of the Grundrisse*, Chicago, Haymarket, 2014
- 12 See the summary of objections on Michael Roberts' Blog: [Michael%20Heinrich,%20Marx's%20law%20and%20crisis%20theory%20%7C%20Michael%20Roberts%20Blog.webarchive](#)
- 13 References to the crises are scattered throughout Marx's texts on credit, banking and finance but are mainly concentrated in Marx, K, *Capital*, Volume 3 chapters 30-34.
- 14 Mosely, F., "The Development of Marx's Theory of the Falling Rate of Profit in the Four Drafts of Capital," paper delivered to the MEGA symposium at the Institute for Economic and Historical Research, Amsterdam, October 10-12, 2014.
- 15 Heinrich
- 16 Harvey, D., "History versus Theory: a Commentary on Marx's Method in Capital," *Historical Materialism*, volume 20, Issue 2, 2012, pp.3-38; Harvey, D., *A Companion to Marx's Capital, Volume 2*, London, Verso, 2013.
- 17 Heinrich, M., Further textual evidence comes from Thomas, P. and G.Reuten, "Crisis and the Rate of Profit in Marx's Laboratory," in Bellofiore, R.,G.Starosta and P.Thomas, *In Marx's Laboratory: Critical Interpretations of the Grundrisse*, Chicago, Haymarket Books, 2013, 321; see also Bellofiore, R. and R.Fineschi (eds) *Re-Reading Marx: New Perspectives after the Critical Edition*, London, Palgrave Macmillan, 2009.
- 18 Marx, K., *Capital*, volume 3, chapter 15; Harvey, D., *The Limits to Capital*, Oxford, Basil Blackwell, 1982, chapter 6.
- 19 Marx, K., *Capital*, Volume 1, pp. 516-517
- 20 Marx, K. *Grundrisse*, 750-51

- 21 My language in 1982, see: Harvey, D., *The Limits to Capital*, Oxford, Basil Blackwell, 1982 p.178
- 22 Boccara, P., *Etudes sur le Capitalisme Monopoliste d'Etat, sa Crise et son Issue*, Paris, Seuil, 1974.
- 23 Harvey, D. *Rebel Cities: From the Right to the City to the Urban Revolution*, London, Verso, 2013, chapter 2
- 24 Marx, K, *Capital* Volume 3, chapter 4.
- 25 Marx, K., *Capital*, volume 3, p.337.
- 26 Marx, K., *Capital*, volume 3, chapter 15
- 27 Reuten, G., "Marx's General Rate of Profit Transformation," in Bellofiore, R. and R.Fineschi (eds) *Re-Reading Marx: New Perspectives after the Critical Edition*, London, Palgrave Macmillan, 2009, p.229
- 28 Harvey, D., *The Enigma of Capital*, London, Profile Press, 2010; *Seventeen Contradictions and the End of Capitalism*, London, Profile Press, 2014.
- 29 Marx, K., *Capital*, volume 3, p.615
- 30 Marx, K., *Capital*, volume 2, p.391
- 31 Marx, K. *Capital*, volume 3, p. 352
- 32 Marx., *Capital*, volume 2., 486-7.
- 33 So called "profit squeeze" theories of crises were, understandably, more popular in the early 1970s. See Glyn, A. and Sutcliffe, R., *British Capitalism, Workers and the Profit Squeeze*, Harmondsworth Middlesex, Penguin, 1972.
- 34 My own position is set out in Harvey, D., *The Limits to Capital*, Oxford, Basil Blackwell, 1982, pp.125-133
- 35 Marx, K, *Capital*, Volume 2, p.264.
- 36 Harvey, D. *The Limits to Capital*, Oxford, Basil Blackwell, 1982, pp.125-33.
- 37 Marx, K., *Capital* Volume 1, p.644

- 38 Harvey, D., *Seventeen Contradictions and the End of Capitalism*, London, Profile Publishers, 2014, Contradiction 2.
- 39 Marx, K., *Capital*, Volume 1, p.197.
- 40 On the importance of branding and its potential impacts on value theory see Arvidsson A. and N. Pietersen, *The Ethical Economy: Rebuilding Value after the Crisis*, New York, Columbia University Press, 2013.
- 41 This is the implication of the first four chapters of Marx., K., *Capital*, Volume 2. See also Harvey, D., *A Companion to Marx's Capital*, Volume 2, London, Verso, 2013, chapters 1 and 2.
- 42 Edsall, T., "America Out of Whack," New York Times Opinion Section, September 23rd, 2014.
- 43 A remarkable set of global data has, however, been compiled by Maito, Esteban Ezequiel, "The Historical Transience of Capital: The Downward Trend in the Rate of Profit since XIX Century," unpublished paper, University of Buenos Aires, Argentina, n.d.
- 44 Marx, K., *Capital*, Volume 3, 356.
- 45 Kapo, S., "World and Regional Trends in Labour Force Participation: Methodologies and Key Results," *Economic and Labour Market Papers*, Geneva, International Labour Office, 2007
- 46 Vercellone, C. "From Formal Subsumption to General Intellect: Elements for a Marxist Reading of the Thesis of Cognitive Capitalism," *Historical Materialism*, 15, 2007, pp.13-36
- 47 Marx., K., *Capital*, Volume 2, pp. 225-29.
- 48 Marx, K., *Theories of Surplus Value*, Volume 3, London, Lawrence and Wishart, 1972, p.120.
- 49 This is the main argument in Harvey, D., *The Enigma of Capital*, London, Profile Publishers, 2010
- 50 Harvey, D., *Paris: Capital of Modernity*, New York, Routledge, 2003
- 51 Harvey, D., *Rebel Cities: From the Right to the City to the Urban Revolution*, London, Verso, 2013, chapter 2.

- 52 The concept of the secondary circuit of capital was suggested by Levebvre, H. *The Urban Revolution*, Minneapolis, University of Minnesota Press, 2003 and taken up more systematically in Harvey, D., "Urbanization under Capitalism: a Framework for Analysis," *International Journal of Urban and Regional Research*, Vol.2, 1978, pp.101-31. But see also Santos, M., *Shared Space: the Two Circuits of the Urban Economy in Underdeveloped Countries*, London, Methuen, 1979.
- 53 Marx, K., *Capital*, Volume 1, p.209
- 54 Sassen, S., *Expulsions: Brutality and Complexity in the Global Economy*, Cambridge, Mass., Harvard University Press, 2014
- 55 Marx, K., *Capital*, Volume 3, pp.354-355; the MEGA manuscripts say "fewer" and not "few" hands so Engels editing made it seem as if the process of centralization was far more dramatic than indicated in Marx's original text.
- 56 For all of its faults this is one of the key insights in Piketty, T., *Capital in the Twenty-First Century*, Cambridge, Mass., Harvard University Press, 2014.
- 57 This is what I attempt to do in Harvey, D., *Seventeen Contradictions and the End of Capitalism*, London, Profile Publishers, 2014.