Irrespective of the specific causes of the 2008-09 crisis, writes Esteban Ezequiel Maito, there is an undeniable tendency for the rate of profit to fall.

In recent issues of the Weekly Worker a controversy between Arthur Bough on the one side, and Bruce Wallace and Steve Dobbs on the other, has developed over some interesting questions.

To begin with, let me say that Arthur Bough should at least take the trouble to read my articles and not draw conclusions about my position through a simple misreading of my comment. I have written a paper that estimates – obviously in very rough way – the turnover speed of circulating capital in four countries (on the same methodological base). If Bough reads it, he would avoid falling into the unrealistic assumptions on fixed capital that he makes in his examples. He would also do well to take a look at my data series, which include annual rates of profit and are not vacuous.

In another article, I have estimated the rate of profit on fixed capital in 14 countries, which currently account for 60% of the world economy. That article contains my own estimates, including an earlier and more general version of the United States and some of those other authors. The inclusion of a rate of profit on fixed capital for the Chinese economy since 1978 is the result of a series built up by other authors (and on the same methodological base). However, in this article I emphasised the relevance of the rate of profit in China at least because its change in the last decades when its conversion into a capitalist economy became a fundamental fact, as well as the fact that it is a systemic point of view. In case there is any doubt, I consider irrelevant from a systemic point of view. In case there is any doubt, I consider irrelevant from a systemic point of view.

So my work has not arrived at a specific explanation for the crisis of 2008-09, nor develop a specific theory of crisis, but simply to check whether or not there is a long-term downward trend in the rate of profit and try to establish some common trend to the industrialised countries-related to the period of partial recovery in profitability that started in 1992. I understood that the result could be shocking to those who deny the tendency of the rate of profit to fall, even more so when the debate itself has been practically focused on just one country, the United States, and at least briefly tends to confirm the tendency in a highly representative group of countries.

So let’s have a look at the evolution of the current crisis, but to contribute to the debate on the tendency of the rate of profit to fall and in particular in the case of the United Kingdom.

Tendency of the rate of profit to fall

Capitalist production consists of a valorisation process (M-C...P...-C') through the exploitation of the labour force (M-C...P...-C'). The capital advanced in the form of money (M) is exchanged for commodities (C) - means of production, raw materials (constant capital) and labour power (variable capital). The secret of capitalist production is that the labour force is able to generate more than its reproduction value: namely a surplus value. For this reason the law of profit expresses the surplus value extracted from the labour power, equal to variable capital (the reproduction value of the labour force) exchanged with the capitalist, and a surplus value. Thus capital transmutes from money-capital to commodity-capital, then productive-capital, finally returning to the form of commodity-capital and money-capital of a greater value. This last step is the one that involves the sale on the market (C'-M'), i.e. the realisation of the profit and the completion of the valorisation process.

There is continual pressure for each capitalist to sell at a lower price than competitors and so raise market share. This implies a constantly increasing expenditure mainly on fixed capital - equipment and infrastructure - which enables the productivity of labour to rise, or labour time necessary to produce commodities to be reduced, thus reducing the individual value, including that of the cost of reproduction of the labour force. But to do this, there will be a relative rise in the value of constant capital compared to that of variable capital (for the reproduction of the labour force). Capital’s sole purpose is to increase the surplus value extracted from the labour force, but its only means of doing so is by increasing constant capital relative to variable capital, the latter being the only source of profits. So capital finds its own internal limit:

The means - unconditional development of the productive forces of society - comes continually into conflict with the limited purpose, the self-expansion of the existing capital.

In Marx’s terms, this downward trend in the rate of profit would occur regardless of a decline or stagnation in wages relative to profits: ie, constant or rising rate of surplus value (profits)/variable capital.

This continual relative decrease of the variable capital vis-à-vis the constant, and consequently the total, capital is identical with the progressively higher organic composition of the social capital in its average. It is likewise just another expression for the progressive development of the social productivity of labour, which is demonstrated precisely by the fact that the same number of labourers, in the same time - ie, with less labour - can convert an ever-increasing quantity of raw and auxiliary materials into products, thanks to the growing application of machinery and fixed capital in general... This mode of production produces a progressive relative decrease of the variable capital as compared to the constant capital, and consequently a continuously rising organic composition of the total capital. The immediate result of this is that the rate of surplus value, at the same, or even a rising, degree of labour exploitation, is represented by a continually falling general rate of profit.

This does not deny the fact that the rate of profit may show periods of growth, but these exist precisely because the countervailing forces manage to reverse this downward pressure for a time. This gives Marx’s law the character of a tendency.

We have thus seen in a general way that the same influences which produce a tendency in the general rate of profit to fall also call forth counter-effects, which hamper, retard and partly parcelise this fall. The latter do not deprive the law, but impair its effect. Otherwise, it would not be the fall of the general rate of profit, but rather its relative slowness, that would be incomprehensible. Thus, the law acts only as a tendency. And it is only under certain circumstances, and only after long periods that its effects become strikingly pronounced.

The tendency of the rate of profit to fall is an inherent aspect of the capitalist mode of production. It is the logical conclusion of the Marxist law of value, his explanation of technological change, competition and the formation of a general rate of profit (devaluers have usually applied fairly revisionist in these matters too). Marx himself states this obvious connection between his theory of value and the downward trend, which appears expressed in the value of any particular commodity as the “economic cell of bourgeois society”.

Since the development of the productivness and the correspondingly higher composition of capital sets in motion an ever-increasing quantity of means of production through a constantly decreasing quantity of labour, every loaf of bread of the total product - ie, every single commodity, or each particular lot of commodities in the total mass of products - absorbs less living labour, and also contains less materialised labour, both in the depreciation of the fixed capital applied and in the raw and auxiliary materials consumed. Hence every single commodity contains a smaller sum of labour materialised in means of production and of labour newly added during production. This causes the price of the individual commodity to fall. But the mass of profits contained in the individual commodities may nevertheless increase if the rate of the absolute or relative surplus value grows. The commodity contains less newly added labour, but its unpaid portion grows in relation to its paid portion. However, this is the case only within certain limits. With the absolute amount of living labour newly incorporated in individual commodities decreasing enormously as production develops, the absolute mass of unpaid labour contained in them will likewise decrease, however much it may have grown as compared to the paid portion.

As can be seen, there is a huge (and non- causal) similarity in Marx’s arguments about the value components in commodities and the tendency of the rate of profit to fall. Both refer to the same reality from two different angles. In both cases the increase in the rate of surplus value has clear limits in offsetting the relative increase in objectified labour (constant capital) in determining both the value of commodities and the rate of profit.

The connection between the law of the tendency of the rate of profit to fall and the law of value is such that, in fact, the first is practically established in volume 1 of Capital - for instance in the chapter on the “value of the constant capital accumulation” (chapter 25).

The accumulation of capital, though originally appearing as its quantitative extension, is actually perceived as a qualitative change, it is seen, under a progressive qualitative change in its composition, under a constant decrease in the relative surplus value of its expense of its variable, constituent.

It is the same principle - the very tendency of capital to further increase competitiveness, and the correspondingly increasing productivity, is expressed precisely in the relative and progressive decrease of the variable as the overall rate of accumulation of capital. To produce the same rate of profit after the constant capital set in motion increases from 50% to 60%, from 100% to 133%, the surplus labour-time worked by the working class has increased and so has the total labour-time, and finally the entire 24 hours of a day, would not suffice if wholly appropriated by capital.

Turnover of circulating capital

The capitalist advances circulating capital, as inputs and wages, but recovers this capital, not in a year, but when the commodities containing such advances are sold. The capitalist buys a ton of steel in January and in March sells it after its transformation into metal tubes. In April he has already recovered the amount paid for the steel in January. So in April production he only reinvests the circulating capital advanced in January. Thus the value of the circulating capital is wholly transferred to the final product after each production process and is recovered by the capitalist once those commodities are sold, to be newly released on production and valorised.

The annual wage bill thus relates to the amount of variable capital advanced, multiplied by the annual number of turnovers performed. Indeed, the capitalist does not advance the amount of the annual wage bill rate of the variable capital, so only the latter must be included in the calculation of the profit.

Since it is the labour force, using machinery, which transforms the inputs representing circulating capital, the turnover of variable capital is similar to that, although it can be calculated that it is very close to that between purchase of inputs and their real availability (obviously variations and complexities in this regard are huge). Fixed constant capital turnover rate may accordingly transform the total product only a minor portion of its value in a year. In national accounts this transformation is represented as the depreciation or consumption of fixed capital.

This exposes another, which sought to generate without any basis is that the increase in the turnover speed of circulating capital can keep the annual rate of profit high and even growing. But this can only be said if he ignores...
the amount of fixed capital advanced relative to living labour - information about the share of investment in national accounts (fixed capital series compared to gross domestic product or wages). As advanced capital, constant and variable circulating capital becomes an element of profit, which is relative to fixed constant capital, due to a potentially infinite time horizon. The rate of profit on fixed capital, the turnover speed reaching 12.4 in 1965). However, Piketty's series, I imputed to the following approximation. Taking the relative cheapening of constant capital 39.8% in 1855-74 and 5.7% in 1990-2009, the rate of profit on fixed capital unadjusted (RoP1), the fall in the rate of profit was 16.9% (14.6% to 3.2%), while the adjusted rate (RoP-N) fell less, but was still down 67.2% (17.4% to 5.7%). Again, the difference fall and the higher relative growth of constant capital compared to the labour force, the only source of surplus value. For simplicity, I present the rate of accumulation in real or constant prices, which shows the relative reality capitalists are governed by current reproductive fixed capital series of the Marxists debunkers, not to provide major countervailing forces explain the tendency of the rate of profit to fall inherent in accumulation separately, but in the difficulties that passage from the possibility of a crisis to an actual crisis are to be found. The development of the productive power of capital gives us some restoration, and vice versa. And, since the increase of constant capital tends to grow at the same rate as the labour force over the long run, as Marx stated, the obvious consequence is the downturn of the rate of profit. The development of the productive power of capital implies that a higher relative rate of accumulation is required for the same rate of increase in turnover speed. The partial recovery of the rate of profit observed since 1982 has been further supported by the increase in the rate of surplus value and a huge cheapening of constant capital (relative price of investment). Thus the reduction of wages and consumption of fixed capital advanced in turn implies that the share of profits showed a steady increase, only comparable with that observed between 1855 and 1871. During this partial recovery there have been changes in the contributions of particular industries to the mass of profits and fixed capital of the total economy: eg, the decline in the contribution from other mature industries like telecommunication services. The accumulation rate tends to change with long-term changes in the following changes in the rate of profit over the short term. Once the rate of profit reaches a peak in a cycle and begins to decline, the rate of accumulation in turn implies that the share of profits remain at high levels for some time. This may indicate that with a change in over time it is more probable because in such situations there is still much idleness in the economy. The increase in the unemployment rate is strongly (inversely) related to the rate of profit achieved by capitalists. As shown in Fig. 2, with a fall in the rate of profit, the relative overproduction of labour (the industrial reserve army) increases. But this relation is mediated by the accumulation rate of fixed capital. The rate of accumulation increases within each cycle, the unemployment rate is reduced. However, in the rising part of the cycle of the accumulation rate, and before reaching its peak, the pace of employment growth begins to fall, while the investment effort imposed by competition through mechanization intensifies. Once the falling rate of profit is consolidated, the accumulation rate reacts more strongly, which is in turn not possible, as the unemployment rate increases, thus expanding the relative overpopulation as a countervailing force.

### Concluding remarks

**Economic laws** determine the rate of profit. Totalarry, historical economic cycles have been detached analytically from any long-term trends or economic processes. When rising and falling waves between one horizon and another occur, there is a clear relation: long-term trends develop through a series of cycles. In this sense, as stated above, the long-term cycle of crises must refer to the long-term trends of accumulation as such, without neglecting the particularities of every crisis that confers its specificity. In this way, to some extent the trend of the tendency of the rate of profit to fall in no way implies the existence of a ‘permanent crisis’. In any case the rate of profit falls always. That crises may be preceded by a phase of rising profits, the rate of profit does not deny the validity of the tendency. Nor does any increase in output necessarily imply a growth in the rate of profit. The post-war decades showed high economic growth in most economies, but over that particular period the rate of profit fell, and that is another basic reason that the share of investment in GDP increased more than GDP rose. However, the new tendencies, the recovery of profitability in conjunction with lower GDP growth rates compared to the previous trend is still a matter of fact. The tendency of the rate of profit to fall is derived from the contradictions that constitute the mode of production and the commodity itself as a product of social labour under its particular relations of production. Marxist scientific analysis, which differs from the perspective of post-Keynesian political traditions and all bourgeois economics, has clarified that it ultimately expresses something as obvious as it is essential: capitalism is a historically bounded system. But Marxism says nothing about how and when its final limits will be reached. Understanding the development of long-term statistics, we are able to make use of better tools to draw a conclusion regarding the long-term analysis of the capitalist economy and its trends. This is one meeting between Marx and the builders, but the debunks have not taken note.

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### Notes


