Monomania and crisis theory – a reply to David Harvey

First things first. I must thank David Harvey (DH) for a copy of his paper and his agreement to debate/discuss the issues in it[1]. The matter at debate is simple: is Marx's law of the tendency of the rate of profit to fall (LTRPF) the main or ultimate cause of recurrent and regular crises in capitalist production that lead to sharp and sustained drops in output, employment and incomes in modern economies? In his essay, DH basically concludes that the LTRPF is not the only or even the principal cause of crises. Thus it cannot be the basis of a Marxist theory of crisis. I contend the opposite.

LTRPF is not the majority

DH opens by saying that *"Marxists frequently appeal to the LTRPF as the underlying explanation"* of crises. Well, some like me do. But actually most Marxists and Marxist economists, even now, do not do so. The view that Marx's LTRPF is relevant to cyclical booms and slumps under capitalism has never been a majority view. The early Marxists after Marx: Kautsky, Lenin, Bukharin, Luxemburg, Hilferding and the Stalinist economist, Varga, rejected the LTRPF as driver of a Marxist theory of crises[2]. Indeed, it was only in the 1920s and 1930s that Henryk Grossman and Paul Mattick put forward the LTRPF[3].

In the post-war period (at least from the 1970s), more Marxist economists adopted the LTRPF as the basis of crisis theory (Yaffe, Carchedi, Cogoy etc[4]). But it was still a minority view (see Paul Sweezy, Paul Baran[5]) and is now. The most prominent Marxist economists now, including of course, DH, do not accept it (Agiletta Dumenil, Husson, Uno, Itoh, R Wolf etc)[6]. Moreover, most of the revolutionary Marxist groups around the world, particularly in Europe and the US reject Marx's LTRPF as relevant to crises.[7]

Indeed, back in March 2011, Costas Lapavitsas, Marxist professor at London University, SOAS, at a meeting where he spoke along with Gerard Dumenil (who also rejects the LTRPF as the main or sole cause of crises) claimed that this monocausal view of the LTRPF was an invention of a recent "Anglo-Saxon school" of Marxist economists and never had been in the 'classical tradition'.[8] Whether Grossman, Mattick, or for that matter Cogoy or Carchedi, can be considered 'Anglo-Saxon' is doubtful. But I certainly am Anglo-Saxon.

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[1] David Harvey, Crisis theory and the falling rate of profit; a draft of an essay to be published in 2015 in The Great Meltdown of 2008: Systemic, Conjunctural or Policy-created?, edited by Turan Subasat (Izmir University of Economics) and John Weeks (SOAS, University of London); Publisher: Edward Elgar Publishing Limited

[2] Henryk Grossmann provides an excellent account of theories of crisis adopted by the Marxists after Marx up to the 1930s. H Grossmann, 50 years of struggle over Marxism, 1883-1932, translated by Rick Kuhn, A Marxist left review publication, 2014. See also Howard and King.

[3] Henryk Grossmann, The law of accumulation and breakdown of the capitalist system, being also a theory of crises, Pluto Press, 1992; Paul Mattick, Economic crisis and crisis theory,

[4] Mario Cogoy, The falling rate of profit and the theory of accumulation, 1987; David Yaffe; Carchedi, Frontiers of Political Economy 1992.

[5] Paul Sweezy:

[6] Too numerous to cite – but I can if you want

[7] Too numerous to cite, again, although Latin American groups seem more committed to LTRPF.

[8] http://thenextrecession.wordpress.com/2011/03/03/the-crisis-of-neoliberalism-and-gerard-dumenil/

Given the weight of rejection of Marx's LTRPF as the basis for a theory of crises, it is encouraging that the work done recently by such as Anwar Shaikh, Fred Moseley, G Carchedi, Andrew Kliman, Alan Freeman, Mick Brooks, Peter Jones, Esteban Maito, Sergio Camara, Tapia Granados, Juan Mateo and myself has gained some traction.[9] As a result, DH is able to conclude that a Marxist theory of crises based on the LTRPF now *"holds an iconic position within the Marxist imaginary"* and thus needing to be demolished by DH – a compliment indeed.

Monocausality

Recently, I was accused by a Marxist economist of a "monomaniacal" attachment to the LTRPF as the cause of crises.[10] And the majority of Marxists still consider that crises under capitalism can have different causes at different times. Indeed, as DH says towards the end of his paper, *"There is, I believe, no single causal theory of crisis formation as many Marxists like to assert".* Dumenil reckons that each major crisis (1890s, 1930s, 1970s and the Great Recession) had a different 'conjunctural' (to use DH's term) cause[11]. Similarly in their recent award-winning book, Panitch and Gindin claim each crisis has a different origin[12].

My immediate response to this eclectic or conjunctural view is that of G Carchedi, namely, "*some Marxist authors reject what they see as "mono-causal" explanations, especially that of the tendential fall in the rate of profit. Instead, they argue, there is no single explanation valid for all crises, except that they are all a "property" of capitalism and that crises manifest in different forms in different periods and contexts. However, if this elusive and mysterious 'property' becomes manifest as different causes of different crises, while itself remaining unknowable, if we do not know where all these different causes come from, then we have no crisis theory".*[13]

Carchedi goes on "*if crises are recurrent and if they have all different causes, these different causes can explain the different crises, but not their recurrence. If they are recurrent, they must have a common cause that manifests itself recurrently as different causes of different crises. There is no way around the "monocausality" of crises."*

Monocausality must be tempered with a modification: namely, a Marxist theory of crises must look beneath the appearance of events, beneath the proximate causes to the essential or ultimate cause. We need to identify the underlying or ultimate cause of crises in the same way that Newton

[9] See my post http://gesd.free.fr/mr1213.pdf and my paper, http://gesd.free.fr/mrobprof.pdf

[10] **Mike Treen**, national director of the New Zealand Unite Union, at the annual conference of the socialist organisation Fightback, held in Wellington, May 31-June 1, 2014, and a seminar hosted by Socialist Aotearoa in Auckland on October 12. November 10, 2014 -- *Links International Journal of Socialist Renewal* : *"But the almost monomaniacal attachment to the TROPF to explain crises leads them astray. Michael Roberts even tries to explain the 10-year cycle under capitalism as a result of the fall in the rate of profit. It is of course true that every crisis is associated with a fall in the rate of profit, but that temporary decline is a result of the crisis not the cause."* The answer to these points by Treen will have to wait another day.

[11] G Dumenil, D Levy, The crisis of the early 21st century,: a critical reviews of various interpretations, 2012; http://www.jourdan.ens.fr/levy/dle2011h.pdf; and see my post, http://thenextrecession.wordpress.com/2011/03/03/the-crisis-of-neoliberalism-and-gerard-dumenil/

[12] The making of global capitalism: the political economy of the American Empire (*http://www.versobooks.com/books/1527-the-making-of-global-capitalism*)

[13] G Carchedi, *International Socialism*, issue 125 (*http://www.isj.org.uk/index.php4?id=614&issue=125*)

identified the underlying cause of motion of earthly bodies in gravity and in force and counter-force. But we must also recognise that the 'trigger' for a crisis can be different: it could start from a collapsing stock market (1929) or bursting housing boom (2007), or a sharp jump in commodity prices (oil in 1974). But this is the trigger where each 'conjunctural' event can be different.[14]

Capital starts with the 'general', or should we say with the 'abstract', and proceeds step by step to the concrete[15]. This is vital because the biggest sin committed by the method of mainstream bourgeois economics is to look only at the appearance of things and not see the essence. But of course, you cannot stay at the essence and must proceed to flesh out any critique of an economy so that the appearances can be explained.

Marx's LTRPF refers to profit as surplus value in the whole economy, prior to the division of that value into 'profit of enterprise', rent and interest, which are dealt with towards the end of Capital Volume 3. Yes, as DH says, Marx's Capital, even Volume 3, is at the abstract level of 'capital in general' (capital's extraction of surplus value from labour) for the most part. That's for a very good reason, as Marx wants to bring out the key laws of motion of capitalism, including the most important, the LTRPF, that drives accumulation and contains its own downfall. Marx's ignores the issues of credit, interest-bearing capital and the state until he deals with 'many capitals' i.e. competition and division of the surplus-value among capitalists.

DH says Marx's LTRPF is *"derived under certain assumptions",* which later on he refers to as *"draconian",* thus implying that they are so strict as to be irrelevant to reality or the appearance of things. But models or laws are always only as good as their assumptions allow. The point is that Marx's assumptions for the LTRPF are very realistic. They boil down to just two. That value is only created by labour power; and that capital must accumulate more value, but can only do so, as a rule, by increasing the organic composition of capital.

The organic composition of capital is the ratio between value of the means of production (or stock of assets) and the value of labour power (wages). Over time, this ratio rises. That does not mean wages fall necessarily. Wages can rise, but the value of the means of production will rise more. Labour creates value and the organic composition of capital will rise over time as capitalism expands and covers the globe. Two assumptions, that's all - and realistic, in my opinion.

By the way, 'perfect competition' is not an assumption of Marx's LTRPF, as DH claims. Or that value must be 'realised' during accumulation, again as DH claims. Also, the LTRPF is not affected if commodities trade at their production prices or market prices rather than at values and does not depend on a fall in 'effective demand'. This is the strength of the theory: the rate of profit would fall even in the case of all commodities being sold. And Marx's law is not 'restricted' by ignoring monopolisation or a failure to realise value created. On the contrary, these latter processes are the result of the operation of the law.

[14] See my paper Tendencies, triggers and tulips, Amsterdam, 2014; http://thenextrecession.files.wordpress.com/2014/02/presentation-to-the-third-seminar-of-the-fi-on-the-economic-crisis.pdf

[15] See Rodolsky, The making of Marx's Capital and H Grossmann, Marx, Classical political economy and the problem of dynamics, forthcoming from Rick Kuhn.

DH contends that Marx's LTRPF is 'contingent'. This could mean that it must be tested in reality. In that sense, every law is contingent. You start with some realistic assumptions, that are contingent, but then the law leads logically to a result that can be tested in reality and may also lead to predictions about what will happen, e.g. if the rate of profit or the mass of profits falls on a sustained basis, we can expect a crisis in capitalist production to follow. But I suspect DH means by contingent that is there no logic that leads from Marx's LTRPF to crises; because the law itself is 'indeterminate'. This latter charge is indeed the line that comes from Michael Heinrich and before him, Paul Sweezy.[16] Carchedi and I have answered this charge of indeterminacy of the LTRPF[17] already and so have others.[18]

Marx abandoned the law?

We are told by the eminent Marxist scholars of the MEGA, like Michael Heinrich, that Marx probably abandoned the LTRPF as relevant to crises in his later years and it was Friedrich Engels in his editing of Capital after Marx's death that reinserted the law and distorted it into a theory of crisis.[19] Indeed, we are told by DH that Engels put a *"gloss"* and misleading title on Marx's Chapter 15. DH accepts this interpretation (and that is all it is): *"I find Heinrich's account broadly consistent with my own long-standing scepticism about the general relevance of the law".* Well, that may be comforting to DH but it does not bear up with the facts.

Poor old Freddy Engels has really come in for it by our modern Marxist MEGA scholars who apparently know better what Marx meant than his close comrade in arms and contributor. Despite what Heinrich says, there is no evidence anywhere that Marx dropped or rejected his LTRPF, considered by him as the most important law of political economy. In my view, *"he never went back"* (DH) to his theory because he had dealt with it – instead he then spent some time trying to work out how to apply it in an explanation of the cyclical nature of capitalist crises.[20] Fred Moseley has recently published a paper on Engels' editing of Volume 3 from Marx's notebooks and concludes that old Fred got as close as he could to Marx's meaning.[21]

Tendencies and countertendencies

DH tells us that *"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".* Well, let us ask the question. Is the TRPF a law or a tendency? In fact, all 'laws' in Marx's analysis are tendencies, that is to say they operate as a force pulling in a certain direction. For instance, *"Such a general rate of surplus-value*

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[16] P Sweezy, Theory of Capitalist Development, 1946 and the modern day Monthly Review 'school'.
[17] Roberts M.(2013), Michael Roberts and Guglielmo Carchedi on Heinrich
[18] Miller J. (1995), Must The Profit Rate Really Fall? – A defense of Marx against Paul Sweezy April http://gesd.free.fr/miller95.pdf and George E. (2013), But Still It Falls: On the Rate of Profit July, 4
[19] Heinrich M. (2013), 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
[20] The key point for Marx was that *"the cycle of related turnovers, extending over a number of years, within which the capital is confined by its fixed component, is one of the material foundations for the periodic cycle [crisis] … But a crisis is always the starting point of a large volume of new investment. It is also, therefore, if we consider the society as a whole, more or less a new material basis for the next turnover cycle'* (CII, 264).
[21] See my post, http://thenextrecession.wordpress.com/2014/11/13/how-capitalism-survives/

— viewed as a tendency, like all other economic laws — has been assumed by us for the sake of theoretical simplification."[22]

DH says near the very beginning of his essay that I *"attribute the current long depression entirely to this tendency"* (the LTRPF). That is not correct because a tendency implies counter-tendencies and thus the tendency alone cannot entirely be the cause of crises. Marx's LTRPF is the tendency, the 'law as such'. But with tendencies, dialectically, come counter-tendencies. The difference between the two is important. The tendency is the law that will eventually override counter-tendencies. But counter-tendencies can delay, reverse or slow the tendency, for some time[23]. The LTRPF says the rate of profit will fall over time; but it does not do so all the time because of counter-tendencies. Indeed, the counter-tendencies operate in such a way as to give a cyclical character to the operation of the LTRPF.

DH tells us that *"proponents of the law typically play down the countervailing tendencies*". Really? I am sure DH has read Henryk Grossmann, that arch 'monomaniacal' supporter of the LTRPF as a theory of capitalist breakdown and recurrent crises. In his book, Grossmann takes 68 pages to explain the 'law as such', the tendency. He takes 71 pages to outline all the countertendencies[24]. In my book, The Great Recession, the whole point of my proposition that the LTRPF operates as a cyclical as well as a secular process is based on the role of the countertendencies. It is the same with that 'monocausal' author, G Carchedi.

Indeed, there are lots of countertendencies. DH calls them a *"motley array"*. But DH notes that I usually identify the two key ones: a rising rate of surplus-value and the cheapening of constant capital. That's precisely because they are at the level of abstraction of the 'law as such', namely 'capital in general'. The other counteracting factors like taxation, foreign earnings; state credit; monopolisation etc are at the level of 'many capitals'. The counteracting tendency of the globalisation of capital, as it searches for new sources of value creation in the urbanisation of cheap rural labour of the so-called emerging economies (something which DH correctly makes a big play of)[25], is really a product of the dominance of the tendency over the key counter-tendencies, leading to downward pressure on profitability in those national economies that have nearly exhausted such sources of value.

DH also makes a point of accelerating turnover of capital as another counteracting tendency. Accelerated turnover will certainly boost the rate of profit for an individual capitalist but only at the expense of other 'slower' capitalists. An average rate of turnover comes into play at the aggregate.

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[22] *Capital Volume III* p.275

[23] As Marx put it clearly: *"the same influences that produce a tendency in the general rate of profit to fall also call forth counter-effects, which hamper, retard and partly paralyse this fall. The latter do not do away with 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 a tendency. And it is only under certain circumstances and only after long period that its effects become strikingly pronounced"* Volume 3, p239 1959 edition. I don't think that could be clearer.

[24] Henryk Grossmann, The law of accumulation and breakdown of the capitalist system, being also a theory of crises, Pluto Press, 1992.

[25] John Smith in his excellent *Imperialism and the globalisation of production* paper. Imperialism & the Globalisation of Production

And that can be speeded up by better communications and transport and inventory efficiency, but that will only raise the ROP if constant capital is not increased at the same time.[26]

DH says that the supporters of the LTRPF like me *"suggest 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."*[27] But this charge of omission certainly does not apply to me. Anybody who has read my book, The Great Recession, knows that I devoted large amounts of space to the US housing boom and bust, the banking crisis, the role of derivatives etc. Indeed, my current blog has at least 25 posts on the relation between profitability, credit (debt), banking and the crisis. And in 2012, the year after DH spoke gave the Isaac Deutscher memorial speech at the Historical Materialism conference, I presented a long paper entitled "Debt Matters"[28]. This monomaniac is not so mono (even if maniacal).

Cycles and breakdown

Harvey says that Marx *"increasingly viewed crises not as a sign of the impending dissolution of capitalism but as phases of capitalist reconstruction and renewal".* If DH means that Marx did not have a theory that capitalism would collapse and only one of cyclical crises, then I do not think that is correct. He had both: the cyclical and the secular. Yes, crises, by the destruction of value (and use value) create the conditions for 'renewal' by restoring profitability, previously driven down by the LTRPF. But there is no permanent escape, just as there is no permanent crisis. The law will exert its power again and profitability will head down again, eventually, provoking a new crisis (slump). So as Marx put it, 'all the old crap starts again'.

Moreover, as the delaying or reversal power of the counteracting tendencies wanes, capital finds it more and more difficult to appropriate value and surplus value. And capital is no longer able to develop the productive forces to their full potential. So Marx's LTRPF not only provides a causal explanation of crises; it also shows the transitory nature of the capitalist mode of production.

This cyclical process of crises is not to restore some equilibrium. Crises do not restore some neoclassical notion of equilibrium but instead jolt the accumulation process back from collapse only to push it forward dynamically again – equilibrium is by chance only.

The evidence

Moving on from methodology and the law, DH casts doubt on all the *"array of graphs and statistical data on falling rates of profit as proof of the validity of the law".* Well, there are two points here. First, are the data correct: has there been a falling rate of profit in the major capitalist economies over the life of modern capitalism, or even since WW2? Second, if there is good evidence that there has been a secular fall (interspersed by periods of rising profitability) is this explained by Marx's law? Or are there other (more valid) reasons for profitability to fall? These are questions that DH poses early on.

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[26] For more on the role of the turnover of capital, we must await a forthcoming paper by G Carchedi and also an unpublished paper by Carchedi and Roberts.
[27] To be fair, he only quotes Andrew Kliman for this 'strident' position.
[28] https://thenextrecession.files.wordpress.com/2012/11/debt-matters.pdf

Well, the evidence for a secular fall in the rate of profit of capital is overwhelming both for the most important capitalist economy of the 19th century, Britain; and for the most important capitalist economy of the 20th century, the US[29]. And we have had new work by Marxist scholars that have attempted to measure the rate of profit for many national capitals across the globe since 1870; and since the end of WW2. They show a secular fall[30]. As DH points out, I have laid out this research on my blog and in presentations –see DH's notes 1 and 2.

The next question is, even if we accept that capitalism does exhibit a tendency for the rate of profit on capital to fall that is born out in reality, maybe this is caused by other factors than Marx's law. As DH puts it: *"Profit can fall for any number of reasons".* He cites a fall in demand (the post-Keynesian explanation); a rise in wages (the profit squeeze explanation); 'resource scarcities'; monopoly power (rent extraction from industrial capital). Yes, a 'motley array' again.

But is not the point of scientific research to try to identify the main cause from an array of possibilities? If we can show that, when the rate of profit falls, it is caused by a rising organic composition of capital that is not counteracted sufficiently by a rising rate of surplus value, then we have good evidence that Marx's law is the cause. And indeed, that is what the work of several Marxist economists have been able to show, particularly in relation to the movement of profitability in the US, but not only there[31].

Indeed, that is what I have shown in my *"array of graphs"*, which reveal an inverse relationship between the rate of profit and the organic composition of capital[32]. The fit is almost perfect. When the rate of profit is rising, the organic composition of capital is falling and vice versa. In other words, this is strong evidence that movements in the rate of profit are **caused** by opposite movements in the organic composition of capital. And I am not the only researcher to show this.

The 'motley array' of other causes either reinforces or counteracts this movement. They are contingent in the sense that they are liable to happen or not according to circumstances. And when they happen, they give a specific shape to the crisis.

Rising organic composition and productivity

DH says that *"the only way forward here would be to measure the direct impacts of changing labour productivity on profit rates".* But that is what the LTRPF can do. The law says that a rising organic composition of capital is accompanied by rising labour productivity – it is the flipside of capital accumulation. But the great contradiction is that rising labour productivity is eventually combined with falling profitability. That's because even if capital appropriates all that new value created by increased productivity of labour and workers live on air, profitability will eventually fall because of the rising organic composition of capital. The impact of rising productivity of labour on profit depends on the rate of exploitation of that labour. In and of itself, higher productivity does not

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[29] See my paper, *Measuring the rate of profit, profit cycles and the Great Recession*, presented to the AHE conference 2011, which compiles all the empirical research on the rate of profit, *a la Marx*, showing a fair degree of agreement on the movement of the ROP and also explaining how falling profitability affects investment and causes crises, http://gesd.free.fr/mrobprof.pdf

[30] E Maito, The historical transience of capital: the downward trend in the rate of profit since the 19th century; http://gesd.free.fr/maito14.pdf; M Roberts, A world rate of profit; http://gesd.free.fr/mrwrate.pdf

[31] See Roberts M.(2013), The US rate of profit – extending the debate 19 December 2013

[32] Roberts M. (2011), Measuring the rate of profit; profit cycles and the next recession

influence profitability because productivity measures use values. But if one capital raises its productivity, it can appropriate surplus value from the laggards.

But what gives the first push to these revolutions in productivity, for instance the decision by Henry Ford to move to assembly line techniques? It is surely the increased expenditure on capital goods relative to living labour, the accumulation of capital, the increase in the organic composition of capital. So increased productivity lowers the value of labour power and also cheapens constant. capital. That should raise profitability. But it is only possible through a rising organic composition of capital and that lowers profitability. The latter tendency eventually predominates.

DH wants to differentiate between the value composition of capital (VCC) and the organic composition (OCC). He asserts that *"the value composition for capital as a whole appears as at best a tautological and, at worst, a totally incoherent concept".* This, DH argues, is because, *"the only measure of productivity relevant to capital is surplus value production, and this is what changes in productivity are supposed to explain!"* But DH is mistakenly identifying productivity with profitability. If the rate of profit is also a measure of productivity, changes in productivity cannot explain changes in the rate of profit and would this would be tautological. But what explains changes in the rate of profit are variations in the organic composition of capital and so there is no tautology.

And the supposed 'incoherence' is partly incurred by DH's misunderstanding to the two concepts. He says that *"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*." That is not correct. Ben Fine does a better job at Marx's meaning: *"The OCC measures the results of accumulation by exclusive reference to the sphere of production...while the VCC reflects this process in the sphere of exchange."* He goes on to say, *"The rise of the OCC associated with the specifically capitalist methods of production is the source of the 'law as such', whilst the formation of the VCC is associated with the counteracting tendencies."* [33]

Exactly - changes in productivity are accompanied by a rising organic composition of capital (even if moderated by the cheapening effect of rising productivity), while surplus value 'production' is indicated by the rate of surplus value or exploitation.

There we have it again: Marx's two assumptions for the law: only labour power creates value (and surplus value) and capital can only expand and accumulate through a rising organic composition of capital. Are these assumptions born out in reality? Does the organic composition of capital rise (and the value composition)? Does the rate of profit fall over time as the organic composition of capital rises and vice versa? The evidence is yes.

DH uses as an example of this complexity the level of vertical integration within an economy. If more economic activity is subcontracted out, does that mean that the OCC has fallen? He is right to point out that this makes measurement of the actual OCC more difficult. But if the same number of workers are using exactly the same capital equipment to perform exactly the same tasks, whether they are all part of the same firm or if their activities have been subcontracted, then that is surely

[33] Ben Fine, Marx's Capital

irrelevant to the economy as a whole? And I and others use aggregate figures for business investment in the economy as a whole, so the problem of the level of vertical integration that DH points to is not as important as it would be in the case of an individual firm.

DH reckons that money distorts the data anyway, particularly in the modern era of inflation, so that the "*gap between value creation and what money does grows wider and wider".* And we data collectors ignore this anomaly. On the contrary, many of us have spent much time isolating the effect of money inflation so that we can discern the underlying changes in close to value terms as possible – see Kliman, Carchedi etc.[34]

DH clearly does not accept that I and others have found data and evidence that support the conclusion that Marx's LTRPF is the best explanation of falling profitability. Yet he is kind enough to say that all our data *"is not worthless. Quite the contrary*", as the money rate of profit is real enough. DH goes on: *"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."* This would seem to invalidate all his previous objections to the empirical work of LTRPF supporters.

Other possibilities

But DH goes further than being sceptical about the data. He doubts that there has been falling profitability, however you measure it, and he also reckons that there are better explanations of recurrent crises of capitalism than falling profitability.

On the first point, DH cites rising profits in various parts of the modern economy – in housing, stock market investing, branded products etc. He states that *"in the business press these days"* it is suggested that US businesses are operating *"at a high rate of profit"* and cites the *"startling growth in the mass, if not the rate of profit".* Ah well, that is where proper research and data analysis are necessary, rather than relying on the 'business press' for what DH calls *"anecdotal evidence"*.

First, Marx's law is about falling profitability of capital, not falling mass of profits, although the former can lead to the latter in a very decisive way. DH makes a slip when he refers to Marx's law as an explanation of *"falling profits"* (p2).[35] To extol from newspapers that business profits are up is not good enough, because profitability can be falling at the same time. Indeed, that is usually the case: the mass of profits in an economy is always rising, except just before a slump when businesses (starting with the weakest ones) find that renewed production delivers not just a lower rate of profit but lower absolute profits.

Second, I and others spend a lot of time and effort trying to ascertain what is happening to the rate and mass of profit. As Marx himself argued, there is a point in the accumulation process when the rate of profit on the stock of investment falls to a level where new investment actually leads to a fall

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[34] A Kliman, The failure of capitalist production; G Carchedi, Behind the crisis. In a forthcoming paper, for a joint book Carchedi and I are working on, Carchedi shows that quantitatively the ROP (in value and in money terms) differ, but that they track each other fairly closely.

[35] DH also makes another slip when outlining how the LTRPF operates at the beginning of his essay when he says that *"competition forces capitalist producers to invest in labour-saving technologies in order to preserve market share".* No, it is in order to increase profitability, not market share.

in the mass of profit and new value[36]. This absolute overaccumulation of capital is the trigger moment for the collapse of investment and then bankruptcies, unemployment and falling incomes – in other words, a slump.[37]

A study by Tapia Granados has shown this causal sequence holds for the US economy since 1945 and I and G Carchedi have shown it holds for the Great Recession too[38]. And so has Mick Brooks.[39] Once again, there are a "motley array" of graphs and data from me and others to support this explanation of crises.

But DH prefers other reasons for capitalist crises than Marx's law. There is the effect of credit, financialisation and financial markets; the devaluation of fixed constant capital in the form of obsolescence; and, above all, the limits on consumer demand imposed by the holding down of real wages relative to capitalist investment and profits.

The old chestnut

DH brings up that old chestnut of the *"poverty and restricted consumption of the masses"* as the *"ultimate reason for all real crises".* The quote actually comes from a section of Capital Volume III on money capital and real capital that Marx called *"the confusion".* And no wonder. It mainly consists of undigested quotes on debates on monetary policy relating to the Bank Act of 1844. This part of Capital Volume III has few clear conclusions and seems to be in the form of preliminary notes by Marx to himself for further study. By comparison, the chapters in Volume III, Part Three on the rate of profit are closely argued and extremely taut and coherent.

The quote on the *"poverty and restricted consumption of the masses"* sticks out like a sore thumb. Scholars of the MEGA note that it was originally a bracketed note that Engels incorporated into the text. "The ultimate reason" is "der letzte Grund" in the MEGA. So 'reason' is an incorrect translation in the old chestnut. It has nothing in common with the notions of 'cause' as suggested by those who use the quote as an <u>explanation</u> for the onset of capitalist crisis[40].

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[36] Marx: *"because capital would be unable to exploit labour… to the degree which would at least increase the mass of profit along with the growing mass of employed capital".* Capital Volume 3, p255 (1959).

[37] See my evidence for this causal process in my paper, <u>Tendencies, triggers and tulips,</u> Amsterdam, 2014; http://thenextrecession.files.wordpress.com/2014/02/presentation-to-the-third-seminar-of-the-fi-on-the-economic-crisis.pdf

[38] Jose Tapia Granados, http://sitemaker.umich.edu/tapia_granados/files/does_investment_call_the_tune_may_2012__forthcoming_rpe_.pdf; and G Carchedi and M Roberts, The Long roots of the present crisis, World Review of Political Economy, spring 2013; http://gesd.free.fr/robcarch13.pdf; and in an unpublished paper, G Carchedi finds that crises occur in years of negative percentage growth of value and surplus value.

[39] Mick Brooks, Capitalist crisis, theory and practice: *"The US Bureau of Economic Analysis (BEA) shows that in the 3rd quarter of 2006 the mass of pre-tax profits peaked at $1,865bn. By the 4th quarter of 2008 it bottomed out at $861bn. This represents a fall of more than one half. The collapse in profits that the BEA records from 2006 would have caused a recession in any case, with or without a banking crisis. A halving in the mass of profits is catastrophic for capitalism and explains on its own the severity of the Great Recession."*

[40] What is the meaning of 'grund' within this context? The famous paragraph consists of two sentences. The first one goes from "The ultimate reason" to "of the masses" and the second one from "as opposed to" to "their limit". A better translation of the famous paragraph would be "Ultimately, the ground/base upon which all real crises develop remains the poverty etc". To make their point, underconsumption supporters disregard the second sentence, but this is the starting point of the argument.

The quotation from Volume 3 can only support the view that Marx had an underconsumptionist view of crises if taken out of its context. It appears in Marx's discussion of the relation between commercial credit and real crises. Marx argues that, in periods of crises, markets are glutted and yet credit is contracted (Marx, 1967c, p. 483). It is thus clear that Marx refers here to realization crises; to the impossibility of selling all commodities at an unchanged price.

Marx's argument is that competition "develops the productive forces", i.e. raises productivity *"as though only the absolute consuming power of society constituted their limit".* But the development of the productive forces goes hand in hand with the ejection of labour and when crises explode, this ejection reduces the masses' consumption. The capitalists' productive and unproductive consumption is also reduced. Underconsumption is a consequence and not the cause of crises.

What causes underconsumption? The answer is obvious: lower wages. But why do wages fall? Wages fall either because employment falls with the same wage rate or because the wage rate falls with the same employment. In other words, wages fall either because less value is produced or because more value is appropriated by capital. A generalized decrease in employment implies that the downward cycle and possibly the crisis has already begun. If wages fall because profits increase, then this cannot be the cause of crises because the ROP rises.[41].

So Marx did not *"confuse matters" (DH)* when he specifically rejected an underconsumptionist explanation of crises in saying that *"it was a pure tautology to say that crises are provoked by a lack of demand or more effective consumption"*. Underconsumption assumes what it wants to explain. A lack of demand is the <u>description</u> of a realisation crisis, or slump, not an <u>explanation</u> of its cause. To accept otherwise is to accept the inadequate Keynesian 'explanation' (not that Keynes' followers really bother to have one).

No theory at all

If we do not accept that Marx's LTRPF is the basis of his theory of crises, then we must accept that Marx did not have any theory of crisis at all. Indeed, this is what our MEGA scholars, Heinrich and Reuten want us to conclude, perhaps so we can fall back on various theories from bourgeois economics based on credit booms (Austrian school), financial speculation (Minsky), lack of demand (Keynes); low wages and inequality (Stiglitz and the post-Keynesians)[42]. They all have one thing in common: that if their particular theory is right, then capitalism can be corrected through financial regulation (Martin Wolf), higher wages (post-Keynesians), or progressive taxation (Piketty) without removing the capitalist mode of production itself. That's because these theories argue that there is no fundamental contradiction in capitalist mode of <u>production</u> that causes recurrent and cyclical crises (as Marx claimed), there are only problems with <u>circulation</u>.

Indeed, that is what DH concludes. He wants us to consider alternative theories based on the *"secondary circuit of capital"* i.e. outside that part of the circuit to do with the production of value

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[41] The Keynesian reply is that lower wages decrease sales and thus affect negatively profits and the ROP. However, Carchedi has shown that the ROP is unchanged if all commodities remain unsold and rises if some commodities are purchased by capital – see his paper, *Could Keynesian policies end the slump? An introduction to the Marxist multiplier*, at *http://gesd.free.fr/carch12.pdf*

[42] See *The causes of the Great Recession*, my paper presented to the <u>Association of Heterodox Economists</u> Conference, July 2010 and https://thenextrecession.wordpress.com/2014/03/11/is-inequality-the-cause-of-capitalist-crises/

and surplus value and instead look at that part concerned with the distribution of that value among 'many capitals' involving in particular 'speculative overproduction' Again, DH wants us to look at the crises caused by a redistribution of the value created by 'dispossession', a form of 'primitive accumulation' where wealth is accumulated by force or seizure and not by the exploitation of wage labour in production as in fully developed modern capitalism.

DH asks, *"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?"* (p.12)

But the bursting of the house price bubble and the credit crunch (begun in 2007) came after a fall in the rate and mass of profit in 2006. That is attested to by official figures from the US BEA. Capitalism went through a 'roadrunner moment', when the system realised that it was charging ahead over a cliff.

Furthermore, this was a world economic crisis, affecting countries that undoubtedly had a house price bubble and credit out of control but also others that did not. If we accept that the credit crunch was <u>triggered</u> by the bursting of the house price bubble in a few states of the US, why did it spread all over the world so quickly? For all the major economies, the rate of profit was falling before the onset of recession. Financial manias, panics and crashes cannot yield an explanation of the recurring boom-slump cycle of capitalism. The credit crunch was a <u>trigger</u> for world recession, not the fundamental <u>cause</u>.

Excluding the unlikely

DH says that those who advocate Marx's LTRPF as the underlying or ultimate cause of recurrent and regular crises or slumps in production typically present the law *"in such a way as to exclude consideration of other possibilities".* Well yes, at the level of an underlying law, other possibilities have been excluded, if you like by a process of elimination, because they don't explain crises and cannot predict any new ones.

DH says at the end of his essay that *"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".* But, apparently, *"he needed an increasingly nuanced theory of how and why this might be so".* I contend that Marx was more 'monomaniacal' in preserving this 'principle' and did not 'increasingly nuance' it away. We should follow Marx here.