

# Michael Roberts Blog

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The US rate of profit in 2017

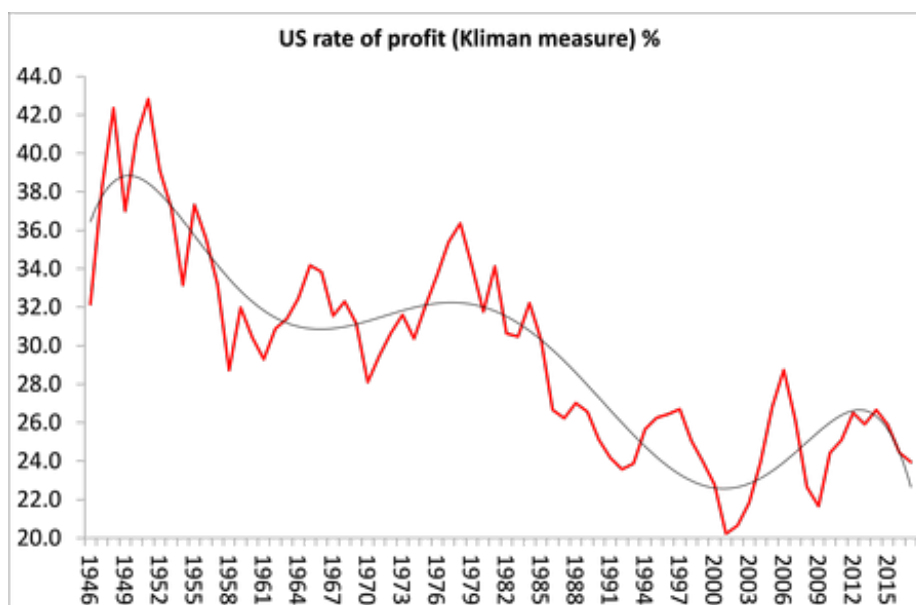
November 2, 2018

Official data are now available in order to update the measurement of the US rate of profit a la Marx for 2017. So, as is my wont, I have updated the time series measure of the US rate of profit. If you wish to replicate my results, I again refer you to the excellent manual for doing so compiled by Anders Axelsson from Sweden.

There are many ways to measure the rate of profit (see <http://pinguet.free.fr/basu2012.pdf>). As in last year, I have updated the measure used by Andrew Kliman (AK) in his book, The failure of capitalist production.

AK measures the US rate of profit based on corporate sector profits only and using the historic cost of net fixed assets as the denominator. AK considers this measure as the closest to Marx's formula, namely that the rate of profit should be based on the advanced capital already bought (thus historic costs) and not on the current cost of replacing that capital. Marx approaches value theory temporally; thus the price of denominator in the rate of profit formula is at t1 and should not be changed to the price at t2. To do the latter is simultaneism, leading to a distortion of Marx's value theory. This seems correct to me. The debate on this issue of measurement continues and can be found in the appendix in my book, The Long Depression, on measuring the rate of profit.

What are the results of the AK version of the rate of profit based on the US corporate sector?



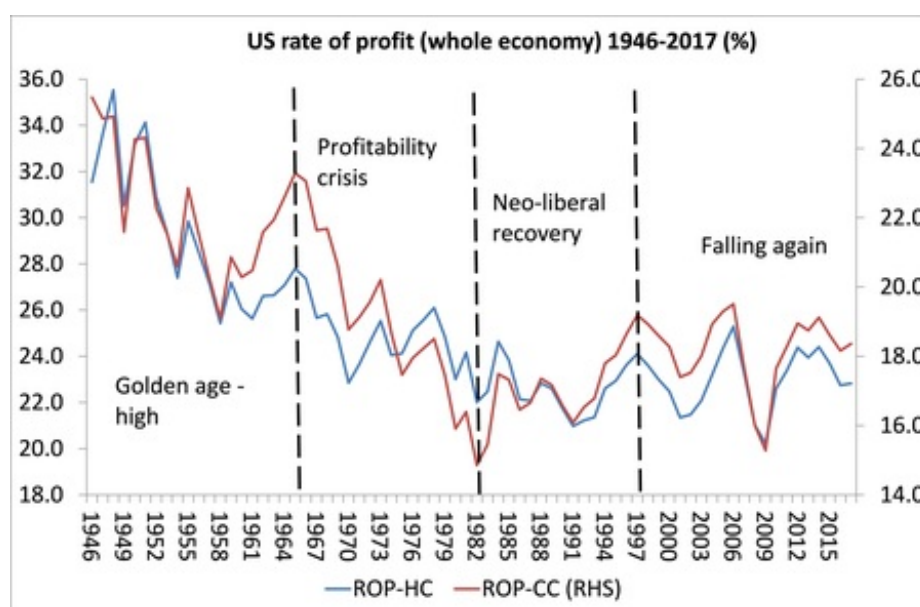
There has been a fall in the rate of profit in 2017 from 24.4% in 2016 to 23.9% in 2017. Indeed, the US rate of profit on this measure has now fallen for three consecutive years from a post-crash peak in 2014. This suggests that the recovery in profitability since the Great Recession low in 2009 is over. The AK measure confirms Marx's law in that there has been a secular decline in the US rate of profit since 1946 (25%) and since 1965 (30%). But what is also interesting is that, on AK's measure, the rate of profit in the US corporate

sector has risen since the *trough* of 2001 and the Great Recession of 2009 did not see a fall below that 2001 *trough*. Thus the 2000s appear to contradict the view of a ‘persistent’ fall in the US rate of profit. I consider the explanation for this later. But it is also true that the US rate of profit has not returned to the level of 2006, the registered peak in the neo-liberal period on AK’s measure. Indeed, in 2017 it was 17% lower than 2006.

Readers of my blog and other papers know that I prefer to measure the rate of profit *a la Marx* by looking at total surplus value in an economy against total productive capital employed; so as close as possible to Marx’s original formula of  $s/c+v$ . So I have a ‘whole economy’ measure based on total national income (less depreciation) for surplus value; net fixed assets for constant capital; and employee compensation for variable capital – a general rate of profit, if you like.

Most Marxist measures exclude any measure of variable capital on the grounds that it is not a stock of invested capital but a flow of circulating capital that cannot be measured from available data. I don’t agree that this is a restriction and G Carchedi and I have an unpublished work on this point. However, given that the value of constant capital compared to variable capital is five to eight times larger (depending on whether you use a historic or current cost measure), the addition of a measure of variable capital to the denominator does not change the trend in the rate of profit. The same result also applies to inventories (the stock of unfinished and intermediate goods). They should and could be added as circulating capital to the denominator for the rate of profit, but I have not done so as the results would be little different.

On my ‘whole economy’ measure, the US rate of profit since 1945 looks like this. As for 2017, my results show a slight rise over 2016. But the 2017 rate of profit is still 6-10% below the peak of 2006 and below the 2014 peak (as it is in the AK measure).

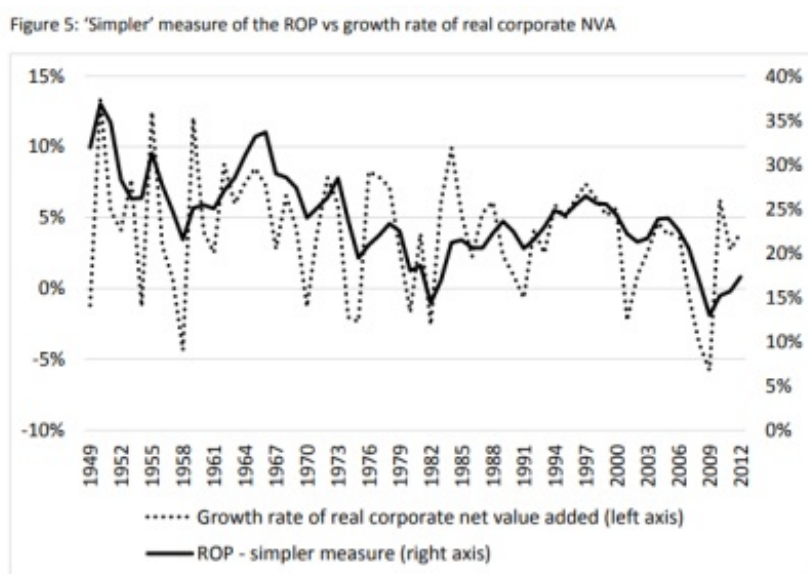


I have included measures based on historic (HC) and current costs (CC) for comparison. What this shows is that the current cost measure hit its low in the early 1980s and the historic cost measure did not do so until the early 1990s. Why the difference? Well, Basu (as above) has explained. It’s inflation. If inflation is high then the divergence between the changes in the HC measure and the CC measure will be greater. When inflation drops off,

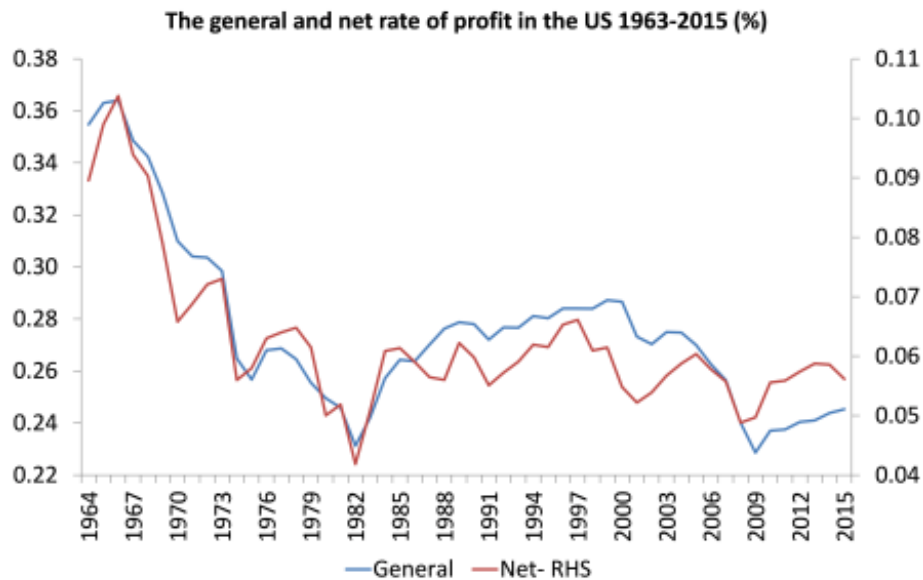
the difference in the changes between the two HC and CC measures narrows. From 1965 to 1982, the US rate of profit fell 21% on the HC measure but 36% on the CC measure. From 1982 to 1997, the US rate of profit rose just 10% on the HC measure, but rose 29% on the CC measure. But over the whole post-war period up to 2017, there was a secular fall in the US rate of profit on the HC measure of 28% and on the CC measure 28%!

There are many other ways of measuring the rate of profit. And this was raised in an important and useful discussion in a workshop on the rate of profit (my rough notes on this are [here](#)) organised by Professors Murray Smith and Jonah Butovsky during my visit to Brock University, Southern Ontario, Canada two weeks ago. Murray and Jonah have contributed to the new book, *World in Crisis*, edited by Mino Carchedi and myself. In their chapter, they argue that a clear distinction must be made between the productive sectors of the capitalist economy ie where new value is created and the unproductive, but necessary, sectors of the economy. The former would be manufacturing, industry, mining, agriculture, construction and transport and the latter would be commercial, financial, real estate and government.

Following the pioneering work of [Sean Mage in the 1960s](#), Smith and Butovsky consider these socially necessary unproductive sectors as ‘overheads’ for capitalist production and so should be included in constant capital for the purposes of measuring the rate of profit. On their current cost measure, the US rate of profit has actually risen secularly since 1953. However, looking at only the non-financial sector, Smith and Butovsky find that the US rate of profit peak of 2006 was some 50% below the peaks of the 1950s and 1960s, confirming Marx’s law. Moreover, the strong rise in profitability recorded in all measures above can be considered *“as anomalous and based to a considerable extent on ‘fictitious profits’ booked in the finance, insurance, and real-estate sectors, and perhaps also by many firms operating in the productive economy.”* This is [a similar conclusion reached by Peter Jones](#). He found that if you strip out ‘fictitious profits’, then the US corporate sector rate of profit actually fell from 1997 – see his graph below.

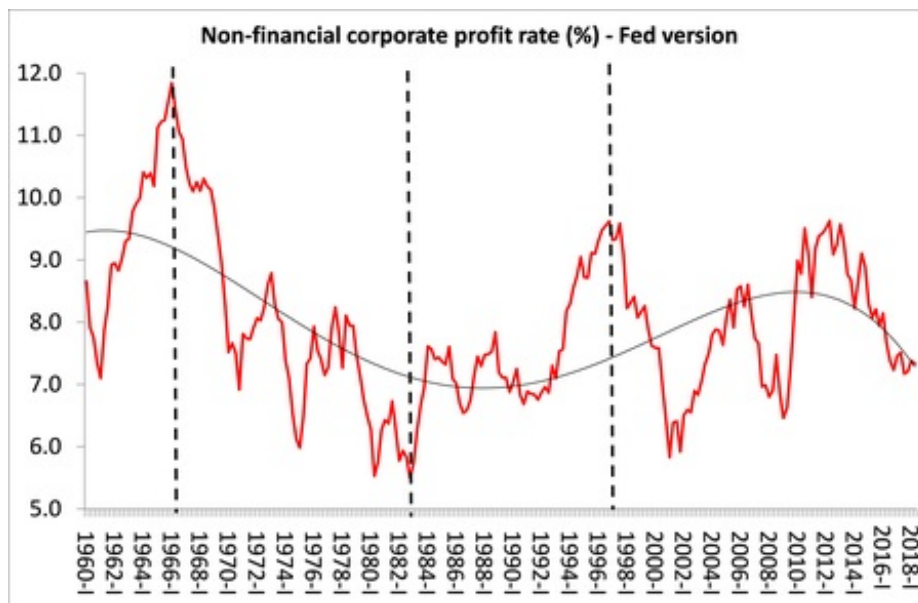


Recently, [Lefteris Tsoulfidis](#) from the University of Macedonia separated the rate of profit for the whole economy into a ‘general rate’ for all sectors and a ‘net rate’ for just the productive sectors. Lefteris kindly sent me his data. And this shows the following for the US general and net rate of profit from 1963 to 2015.



As in other measures, the US rate of profit is around 30% below 1960 levels but bottomed in the early 1980s with a modest recovery to the late 1990s in the so-called neoliberal period. But interestingly, on Tsoulfidis' measures, there was a decline, not a rise, in the rate of profit from 2000 leading up to the Great Recession.

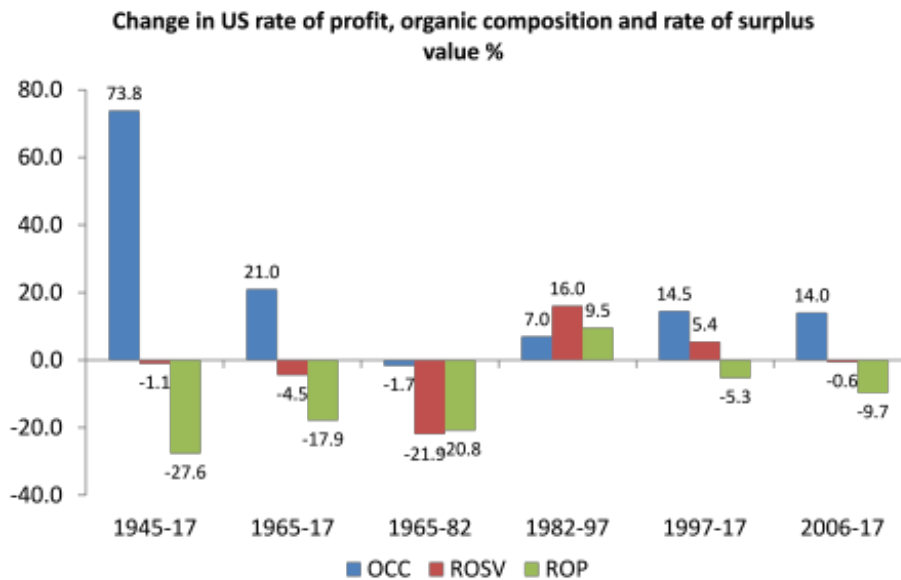
I looked at the US non-financial corporate sector (which is not strictly the same as the Marxian definition of the 'productive' sector), using data from the Federal Reserve. The net operating surplus over net financial assets is the measure I used for the rate of profit here.



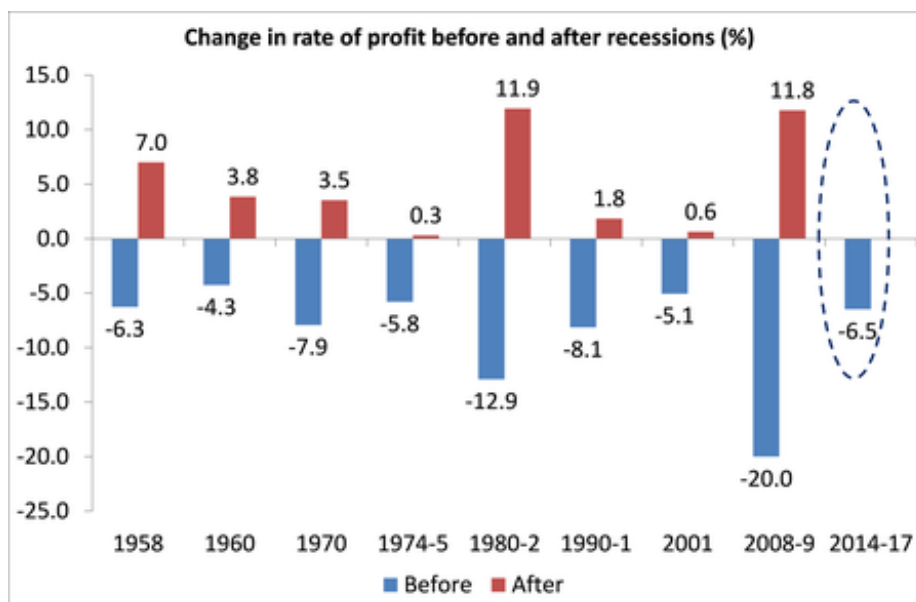
This Fed measure shows that the US rate of profit peaked in 1997 to end the neo-liberal period and since then that rate has not been surpassed even in the credit-fuelled fictitious profits period from 2002 to 2006. Indeed, after peaking post the Great Recession in 2012, the Fed measure has fallen consistently right up to mid-2018. The Fed measure is quarterly and so provides a more up to date result. On this measure, the US rate of profit remains 32% below its 'golden age' peak in 1966, again confirming Marx's law.

Marx's law is also confirmed because the driver of changes in US profitability depends on the relative movement of the two Marxian categories in the accumulation process: the organic composition of capital and the rate of surplus value (exploitation). Since 1965

there has been the secular rise in the organic composition of capital of 21%, while the main 'counteracting factor' in Marx's law, the rate of surplus value, has fallen over 4%. Conversely, in the neo-liberal period from 1982 to 1997, the rate of surplus value rose 16%, more than the organic composition of capital (7%), so the rate of profit rose 9.5%. Since 1997, the US rate of profit has fallen over 5%, because the organic composition of capital has risen over 14%, outstripping the rise in the rate of surplus value (5.4%).

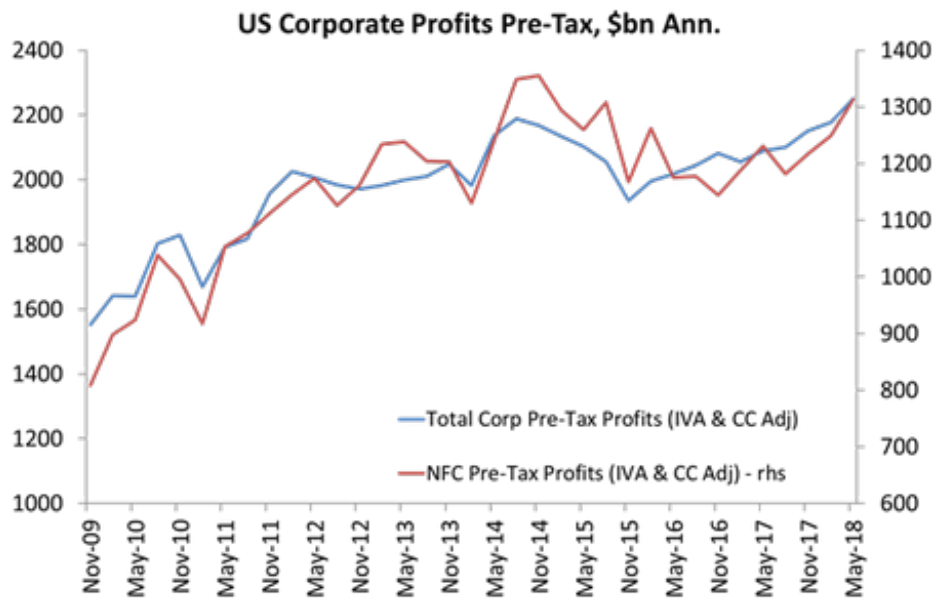


One of the compelling results of the data is that they show that each economic recession in the US has been *preceded* by a fall in the rate of profit and then by a recovery in the rate after the slump. This is what you would expect cyclically from Marx's law of profitability.

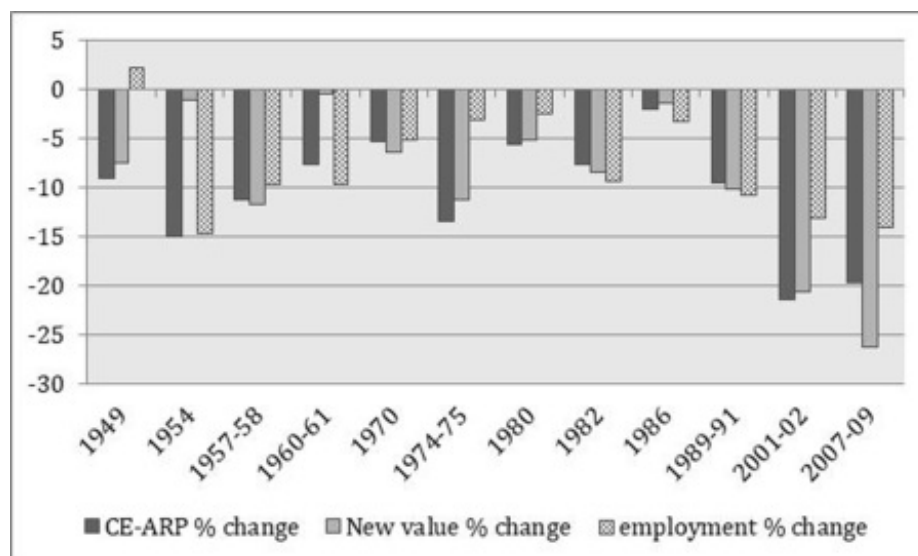


Clearly a significant fall in the rate of profit is an indicator for an upcoming slump in investment and production in a capitalist economy. Marx argued that a falling rate of profit would, for a while, be compensated for by an expansion of capital investment, so that the mass of profits would continue to rise. But that could not last and eventually the fall in the rate of profit would lead to a fall in the mass of profits, which would engender 'absolute overproduction' of capital and a slump in production. Marx explains all this clearly in Volume 3 of Capital, Chapter 15. And that is what occurred in the Great Recession.

What is the situation now in the middle of 2018? Well, US corporate profits are still rising, although non-financial profits are below the level at the end of 2014.



In a recent paper, G Carchedi identified three indicators for *when* crises occur: when the change in profitability; employment; and new value (v+s) are all negative at the same time. Whenever that happened (12 times since 1946), it coincided with a crisis or slump in production in the US. This is Carchedi's graph.



My updated measure for the US rate of profit to 2017 confirms the first indicator is in place. However, 'new value' had two quarters of decline in 2015 and one in 2017, but in the first two quarters of 2018 it has been rising; and employment growth continues. So, on the basis of these three (Carchedi) indicators, a new recession in the US economy is not imminent as 2018 moves into the last quarter.

In sum, Marx's law of profitability over the long term is again confirmed. I am reminded that back in 2013, Basu and Manolakos did a highly sophisticated econometric analysis of Marx's law for the US rate of profit, controlling for all the counteracting factors in the law like cheapening constant capital and a rising rate of surplus value. They say "We find weak evidence of a long-run downward trend in the general profit rate for the U.S. economy for the period 1948-2007." By which they mean that there was evidence but it was not decisive.

But they also found that a decline in the US rate of profit was *“negative and statistically significant”* ie the fall in the rate of profit was not random. So *“we find statistical evidence in favor of Marx’s hypothesis regarding the tendency of the general rate of profit to fall over time.”* Basu and Manolakos reckon there was an average *annual 2%* fall in the US rate of profit over the period. In my own cruder calculations, I find exactly the same result for the period 1947-07 in the historic cost measure.

In conclusion, there has been a secular decline in US profitability, down by 28% since 1946 and 20% since 1965; and by 6-10% since the peak of 2006. So the recovery of the US economy since 2009 at the end of the Great Recession has not restored profitability to its previous level. Also, the driver of falling profitability has been the secular rise in the organic composition of capital, which has risen around 20% since 1965 while the main ‘counteracting factor’, the rate of surplus value, has fallen.

In 2017, the US rate of profit fell compared to 2016 on some measures (2%) or rose slightly on mine (1%). All measures show that the US rate of profit in 2017 was 6-10% below the level of 2014.

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