Profitability trends and fluctuations in the context of the current crisis

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Paper to be presented at the
FIRST INTERNATIONAL CONFERENCE IN POLITICAL ECONOMY
“BEYOND THE CRISIS”
10-12 September 2010, Rethymno, University of Crete, Greece

ABSTRACT
The paper analyses the short and long-term dynamics of the U.S. profit rate in the postwar era and, in particular, in the context of the current crisis; therefore, the current crisis is characterized from the profitability trends and fluctuations. In the long-term, Marxian theory postulates a tendentially falling profit rate as the main cause of structural crisis of over-accumulation. However, it is argued that the current crisis has not been preceded by such a tendency in the U.S. economy; rather there has been a recovery of the profit rate. However, the crisis can be characterized from the structural tendencies of profitability and accumulation, essentially from the relation of mediation between them during the neoliberal era. Therefore, it can be structurally characterized as a crisis of neoliberalism. Secondly, a short-term downfall of the profit rate, associated with the cyclical movement of the labor cost and the interest rate, triggered the cyclical crisis of the U.S. economy that resulted in the bursting of the housing bubble and international financial crisis.

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1. INTRODUCTION

The current crisis is often said to be a structural one, but it is not so frequent to find a thorough foundation for this assertion. It could be fairly suspected that the statement is on many occasions wrongly grounded in its profound and prolonged nature. The consequent shabby comparisons with the 1929 economic depression that quickly come to surface add to this superfluous characterization. The current crisis is, of course, a structural one and its similitude to the Great Depression is greater than it is regularly accounted. However, this vigorous statement must be properly founded; it must be clearly showed that the causes of the ongoing crisis are related in some way to the economic structure and, more importantly, it must be proved that the crisis necessary implies a restructuration of the main economic relations.

Marxist economic theory provides a solid base for the structural economic analysis. According to it, the capitalist economy is a class society in which the social relations of production are characterized by the capital’s exploitation of labor and its drive for profit, which is itself lastly explained by capital’s drive for accumulation. In other words, the incessant expansion of capital is the requisite for the reproduction of capitalist societies. The structural conditions of profitability are, therefore, the main indicator of the health of the process of capital accumulation and the economy as a whole. The structural nature of a crisis must be related then to the general conditions of capital profitability and accumulation.

Crisis are fundamentally cyclical economic episodes characterized by a disruption in the process of capital accumulation. Their emergence is not immediately related to the long-term dynamics of profitability and accumulation; instead, short-term economic phenomena spark crises. However, their specific development depends on structural conditions of the valorization and accumulation of capital, so determining the
depth and length of the crisis. Also, structural conditions determine the extent of the recomposition processes of the profitability and accumulation conditions that take place as a consequence of the crisis, though the distinction between short and long-term transformation can be blurry. To sum up, an economic crisis manifests the existing reproduction problems of the capitalist social relations, and reflects the structural economic conditions in its severity and duration as well as in the transformation processes that restructure the conditions of valorization and accumulation in order to ensure the reproduction of capitalist social relations.

Although the rate of profit is relevant essentially in the long-term analysis of crisis, profitability also plays a role in the short-term dynamics of crises; mainly, the rate of profit shows a procyclical behavior. In a first approximation, the positive relation is explained by the consequences of the crisis on the rate of profit. Thus, the decrease in the level of economic activity and capacity utilization entitled by a crisis implies a slump in the profit rate. Also, the greater rigidity of wages in relation to profits during economic fluctuations explains the cyclical decline in profitability. However, it may also occur the opposite, that is, a short-term fall in the rate of profit can trigger a crisis. This cyclical behavior of the profit rate can be explained by their more volatile determinants, such as income distribution or interest rate fluctuations.

This paper analysis the long and short-term dynamics of the profit rate in the U.S. economy during the postwar era and, in particular, in the context of the current crisis, in order to reveal some of its structural and cyclical characteristics. Therefore, a comprehensive characterization of the current crisis is not offered in the paper, rather a partial characterization biased towards the profitability trends and fluctuations. The rest of the paper is organized as follows. The second section analyses the long-term dynamics of the profit rate and its relation with the accumulation process. Firstly, it is contended that the current crisis is not preceded by a tendential fall in the rate of profit; rather there is a mild recovery in the general profit rate in the last decades. Nevertheless, the current crisis has taken place in a lasting context of structurally low profitability caused by the persistent overaccumulation of capital inherited from 1970s crisis. Secondly, … [UNFINISHED VERSION]
2. PROFITABILITY AND ACCUMULATION TRENDS: A STRUCTURAL CHARACTERIZATION OF THE CURRENT CRISIS

During the postwar long boom, orthodox Marxist economic theory remained in impasse. The persistent economic growth seemed not to have an end; cyclical booms were vigorous and long, while recessions were mild and short. Consequently, the case for a crisis-prone capitalism was undermined just a few years after the Great Depression. Not surprisingly, postwar Marxism was dominated by a general discussion of the “possibly changed nature of capitalism,” (Howard and King, 1992: ch. 4) where the “revisionist” positions prevailed to the few orthodox participants. Less surprisingly, things turned around with the coming of the 1970s crisis. Then, orthodox Marxist economic theory was revitalized around the law of the falling rate of profit and its role in the occurrence of structural crisis. And not without a reason: the significant empirical research developed since the 1970s crisis has fairly shown that it was a structural crisis of overaccumulation related to the fall in profitability caused by technical change.¹

The current crisis has renewed the Marxist debate on crisis theory. In the search for a Marxian explanation and characterization of the crisis, the inertia of 1970s crisis and orthodox Marxism revival has drawn some authors to turn to the law of the falling rate of profit as the main explanation of the current (structural) crisis.² Most authors, on the contrary, have explained the crisis based on the contradictory nature of the new dynamics of the world economy since the 1980s, labeled as neoliberalism³ and/or

¹ There are numerous empirical investigations about the tendential fall of the U.S. rate of profit and its relation to the 1970s crisis; for instance, see Shaikh (1992), Duménil et al. (1987) and Moseley (1991). The U.S. profitability dynamics can be extrapolated to the world economy, as other numerous empirical studies on national and multinational dynamics of the rate of profit have proved. For instance, Cámara (2008: 55-62) characterizes the global dynamics of the world economy, represented by United States, Spain and Mexico, and identifies a world pattern of tendential fall in the rate of profit caused by a biased technical change towards capital. Freeman (1991) for the United Kingdom; Li et. al (2007) for Japan, United Kingdom, Germany, and France; and Marquetti et. al (2008) for Brazil, among others, confirm this pattern.

² Kliman (2009) and Astarita (2009a) represent two opposing examples of this pursuit. Kliman claims the falling rate of profit “was an indirect cause”, but “not the proximate cause of the crisis”, (ibid: 5) given that “that much or even the entire decline in the rate of profit occurred by the early 1980s, a quarter-century before the current crisis erupted.” (ibid: 28) Astarita points out that the falling rate of profit cannot explain great crisis as the 1930s Great Depression, the Japan’s 1990s stagnation or the current crisis. As a consequence, he departs from the orthodox perspective based on profitability and accumulation to endorse a crisis theory that relies on the tendency of the economy to overinvestment (excess capacity) and to disproportionality.

³ A comprehensive Marxian interpretation of neoliberalism can be found in the work of Duménil and Lévy (2003, 2004a, 2004b).
However, the characterization of the neoliberalism is not always properly related to the structural trends in profitability and accumulation; often, neoliberal dynamics are presented as an autonomous force. The present section shows a structural characterization of neoliberalism based on the long-term dynamics of the rate of profit and its structural relation to accumulation; accordingly, a structural characterization of the current crisis as a crisis of neoliberalism is offered.

2.1 Postwar profitability trends in United States

The U.S. general rate of profit has gone through two different long periods after the Second World War. (Figure 1) The first period dates from the end of the war, when concluded a strong increase in the profit rate, to the 1970s crisis; it corresponds to the Keynesian period. During this period, the U.S. economy enjoyed high levels of profitability that entailed a vigorous process of accumulation and an important economic growth, averaging 4.17% in the 1950-1973 period. The tendency of the rate of profit to fall manifested in the second half of the 1960s and the 1970s, and it reached its lowest level with the 1982 crisis. During the crisis years, the rate of profit averaged 18.8%, which means a 5.5% less in absolute terms and a 23% less in relative terms compared to the postwar boom years. As stated above, it has been established that the falling profitability was the cause of the 1970s crisis.

The second period goes from the 1970s crisis to the present, the neoliberal period. It corresponds to a period of slight recovery of the general rate of profit, as it averaged 1.2% higher than during the crisis years. Anyhow, the recovery only partially offsets the previous fall in the rate of profit, barely above 20% of it. Therefore, neoliberalism can be characterized as a low profitability period if compared with the first period; the rate of profit is 4.3% lower in absolute terms and 18% lower in relative terms than during Keynesianism. According to the labor theory of value, the structural conditions of the capital valorization during neoliberalism explain the meager economic growth during the period, averaging an annual rate of 2.95% in 1983-2009.

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4 Two Marxist, but opposing views on the concept of financierization are found in Lapavitsas (2009) and Astarita (2009b).
Figure 1. Long-term dynamics of the general profit rate.

United States, 1946-2009

Source: Cámara (2009a). The dotted line represents the average level of the general rate of profit in the three periods represented. The general rate of profit is defined as the total surplus value of the economy between the total capital advanced in production.

The observation of the dynamics of the general rate of profit during the last decades prevents an association of the current crisis with the falling rate of profit. On the contrary, the rate of profit undergoes a slight recovery during the neoliberal years. Nonetheless, the current crisis must be contextualized within a very long period –over three decades– of low profitability, i.e., a period of weak structural conditions of accumulation and economic growth, as well as a period of greater instability.

The long-term dynamics of profitability can be further depicted by the decomposition of the general rate of profit \((P/K)\) between its distributive and technological components, the profit share \((P/Y)\) and the productivity of capital \((Y/K)\), respectively, where \(P\) is the surplus value, \(K\) is the capital advance in production and \(Y\) is the new value created in a period:

\[
\frac{P}{K} = \frac{P}{Y} \cdot \frac{Y}{K}
\]

5 The Marxian productivity of capital, a social and total measure, is at odds with the orthodox concept, a physical and partial measure. (Cámara, 2010)
A visual observation of Figure 2 shows that the general rate of profit follows a pattern similar to the productivity of capital, the latter being less volatile than the rate of profit. Therefore, the dynamics of the general rate of profit seems structurally determined by the productivity of capital, and affected by the short-term fluctuations in the profit share, which remains virtually constant along the period. This is confirmed by the numbers. The drop in the productivity the capital from the 1946-1973 period to the 1974-1983 period explains 78% of the fall in the rate of profit, while the minor decrease in the profit share explains only 22%. Therefore, the declining profitability manifested during the Keynesian period is explained by the technological component of the rate of profit, confirming the expectations of the Marxian law of the tendency of the rate of profit to fall. The scant recovery of the general rate of profit during the neoliberal period is also explained mostly by the productivity of capital, which accounts for 83% of the 6.4% relative increase in profitability, while the profit share remains nearly constant—it grows only 1% in relative terms—and explains only 17% of the recovery.  

6 The dynamics of the productivity of capital shown in the graph includes the fluctuations in the capacity utilization rate. A measure of the productivity of capital that abstracts from it would show an even less volatile behavior. 

7 This behavior of the profit share would contradict a characterization of neoliberalism as a period of diminished power of the working class and imposition of the capitalist class of higher levels of
In a comparison between the Keynesian and neoliberal periods, it is observed that the profit share is only 4% lower in the last one, while the productivity of capital is 14% lower. This means that the low general rate of profit is still explained by the technological component, in spite of being the main contributor to its recovery, and that the structural profitability constraint to accumulation and growth has a technological nature. Of course, this cannot be interpreted from a physical-technical perspective, but rather in Marxian terms as a persistent problem of overaccumulation of capital; in other words, the amount of capital (accumulated value) remains excessive in relation to the surplus value created with the existing conditions of valorization. Therefore, the current crisis took place in a structural enduring context of overaccumulation of capital, inherited from the 1970s structural crisis.

**Figure 3. General rate of profit, different levels of aggregation.**

*United States, 1946–2009*

The analysis of the general rate of profit in lower levels of aggregation confirms the long-term dynamics of profitability just described for the whole U.S. economy. Figure 3 shows the general rate of profit of the corporate business sector and the corporate nonfinancial business sector, along with the whole economy measure. Besides the lower level of both new estimates, the long-term patterns are similar; in particular, the two-phase periodization of the profitability trends is preserved. Actually, for the exploitation. However, a closer look to the dynamics of real wages and the distribution of income among wage-earners reaffirms this characterization. (Cámara, 2009b: 10-12)
corporate businesses and corporate nonfinancial businesses, the fall in the rate of profit amounts to 24% and 25% in relative terms, respectively, very close to the figure of all capitalist businesses. The neoliberal recovery in the general rate of profit is 8.3% and 9.6%, respectively, only slightly higher than the extensive data.

2.2 Keynesian and neoliberal accumulation trends

In Marxist economic theory, there is direct relationship between the conditions of valorization and the process of capital accumulation. Therefore, the low profitability characteristic of the neoliberal period is the key explanation of the undermined process of accumulation of the last decades. In Figure 4, both the rate of profit and the rate of accumulation are represented. It is evident that the rate accumulation collapsed along with the falling rate of profit in the second half of the 1960s and the 1970s, marking the end of the Keynesian period. However, the slight recovery of the general rate of profit during the neoliberal period is not transmitted at all to the rate of accumulation, which keeps a downward tendency despite the upswing during the 1990s boom associated to the investment in technological and communication technologies.

Figure 4. General rate of profit and rate of accumulation. United States, 1946-2009

Source: Cámara (2009a). The rate of profit is plotted in the left axis and the rate of accumulation is plotted in the right axis. The rate of accumulation is defined as the total net nonresidential investment between the total capital advanced in the economy.
The lack of a direct relationship between both rates during the neoliberal period is consequence of the transformed mediation between profitability and accumulation that also shapes the dynamics of the accumulation process. In order to discern between both relationships, the rate of accumulation –defined as the rate of capital expansion, that is, the ratio of net investment ($NI$) and capital ($K$)– between the rate of profit and the investment coefficient –defined as the ratio between net investment and surplus value ($P$)–, which can be interpreted as a measure of the mediation between profitability and accumulation:

$$\frac{NI}{K} = \frac{P}{K} \cdot \frac{NI}{P}$$

The rate of accumulation collapsed from an average level of 3.6% during the Keynesian period (1946-1973) to an average level of 2.7% during neoliberalism, representing a relative plunge of 25%. As stated above, the falling rate of profit explains the greater part of it, as much as a 69%, but the decline in the investment coefficient explains the remaining 31%, given the 7.9% relative decline of this variable between the Keynesian and neoliberal periods. Therefore, the neoliberal accumulation trends differ from the Keynesian ones not only in the lower level of accumulation, but also in the diminished propensity of capital to invest profits productively...

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2.3 A crisis of neoliberalism

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3. THE CURRENT CRISIS AND THE SHORT-TERM DYNAMICS OF THE PROFIT RATE

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3.1 The falling rate of profit: cause or consequence?

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3.2 Real labor costs and the profit rate

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3.3 Interest rates and the profit rate

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4. CONCLUSIONS

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This is an unfinished version of the paper on August 10, 2010.

A complete version will be available before the conference and can be requested to the following email: scamara@correo.azc.uam.mx

BIBLIOGRAPHY


