Debate sobre a Lei da Queda Tendencial da Taxa de Lucro em Marx

Montado por Bruno Miller Theodosio

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CRISIS THEORY AND THE FALLING RATE OF PROFIT
DAVID HARVEY

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

1) Competition forces capitalist producers to invest in labour-saving technologies in order to preserve market share.

2) The value of the means of production consumed (c, the constant capital) tends to outstrip the value of labour power (v, the variable capital) employed.

3) The ratio of constant to variable capital employed (the productivity or value composition of capital, \(c/v\)) rises. If the rate of exploitation (\(s/v\), the ratio of surplus value produced to variable capital employed) is unchanged, then the rate of profit, \((s/c+v)\) will fall.

4) There are, however, counteracting tendencies. The rate of exploitation of labour power can rise. Constant capital can become cheaper with increased productivity in the sectors supplying machinery, raw materials and intermediate products. But these counteracting tendencies are insufficient, it is held, to offset the downward trend in the profit rate in the long run. “Thus,” Roberts concludes, “profitability tends to fall and capitalism tends towards crises, a movement
interrupted only by short periods of growth.”

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

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

Marx was obviously attracted to this idea but he was loath to attribute social change to natural causes (such as natural scarcity or Malthusian limits). So he sought a reason for falling profits deriving from the internal contradictions of capital. This is what his version of the theory does. It is the ever-rising productivity of capital, forged out of the perpetual competitive search for relative surplus value, that leads the profit rate to fall. In the Grundrisse, Marx even went so far as to suggest that this would prove to be the ultimate “grave-digger” of capitalism. Marx derived the law under certain assumptions. He
confined his theorizing throughout much of *Capital*, I have shown elsewhere, to what he called the sphere of law-like generality. He excluded any consideration of universal conditions (the vagaries of the relation to nature), particularities (distributional arrangements, class and other struggles over surplus value appropriation and the state of competition) and singularities (such as the whims of consumer fashion and the effects of state policies) from his reasonings. He examined how capital functioned in what he considered a “pure” state. The fact that Marx excluded so much in his magnum opus should not be taken to mean that he thought the relation to nature, the particularities of distributional and market arrangements and the singularities of human choice were irrelevant or in any way minor features of any social system. His more historical and political writings suggest the exact opposite. But the theoretical landscape he chose to explore in *Capital*, and which encloses his theory of the falling rate of profit, is far more restricted. Marx spelled out even more specific assumptions in constructing his “general law of capital accumulation” in Volume 1 of *Capital*. First, capitalists have no problem selling their goods at their value in the market or re-circulating the surplus-value they gain back into production. All commodities trade at their value (with the exception of labour power); there is no problem in finding a market and no lack of effective demand. Secondly, the way in which the surplus value is “split up into various parts….such as profit, interest, gains made through trade, ground rent, etc” is excluded from consideration. Thirdly, Marx states: “in order to examine the object of our investigation in its integrity, free from all disturbing subsidiary circumstances, we must treat the whole world of trade as one nation, and assume that capitalist production is established everywhere and has taken
possession of every branch of industry.”

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

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

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

Crises that flowed from rising labour productivity did not disappear from his thinking, but they could and should be supplemented or related to other contradictions, such as the periodic “plethora of capital” and the chronic tendency towards overaccumulation.  

Michael Heinrich, one of the German scholars responsible for editing the original manuscripts, has caused a storm of controversy by suggesting that Marx was far less enthusiastic about the law of falling profits than Engels’ edited version allows. The protests on the part of adherents to the law have been, to put it mildly, vigorous. Since I do not read German I will leave it to the scholars to sort this out. But I find Heinrich’s account broadly consistent with my own long-standing skepticism about the general relevance of the law. We know that Marx’s language increasingly vacillated between calling his finding a law, a law of a tendency or even on occasion just a
tendency. Marx made no mention of any tendency of the rate of profit to fall in his political writings such as *The Civil War in France*. Even in Volume Three of Capital, where he did consider the two crises of 1848 and 1857, these crises were depicted as “commercial and financial crises” and were analysed in the chapters on banking, credit and finance. Only passing reference is made to the falling rate of profit in these analyses.\(^4\) We also know that Marx never went back to the falling rate of profit theory – in spite of its evident incompleteness and supposed importance – after 1868.\(^5\) While we cannot say why this was so, it does seem passing strange that Marx would chose to ignore in the last dozen years of his research what he had earlier dubbed in the *Grundrisse* as “the most important law of political economy.” “At the end of the 1870s,” Heinrich observes, “Marx was confronted with a new type of crisis: a stagnation lasting for years, which is distinguished sharply from the rapid, conjunctural up and down movement which he had hitherto known.” The idea of crises as “momentary” disruptions must have no longer seemed adequate. “In this context, Marx’s attention is drawn to the now internationally important role of the national banks, which have a considerable influence upon the course of the crisis. The observations reported by Marx make clear that a systematic treatment of crisis theory is not possible on the immediate basis of the law of the tendential fall in the rate of profit (as suggested by Engels’s edition of the third volume of Capital), but rather only after a presentation of interest-bearing capital and credit.” This would explain why the crises of 1848 and 1857 are called “commercial and financial crises” and examined in the chapters on banking and finance. If, however, “the national banks play such an important role,” says Heinrich, “then it is very doubtful whether the credit system can be
categorically presented while excluding an analysis of the state. The same holds for the world market.” 15 Marx evidently found it necessary to abandon the formal assumptions within which he had earlier confined his derivation of the law of falling profits in order, presumably, to make it relevant to the dynamics of accumulation actually occurring. He also left the level of generality behind and incorporated the particularities of distribution (the credit system in particular) and market competition into his theorizing. 16

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

How seriously we should take Marx’s apparent vacillation and ambivalence depends not only upon what we make of his draconian assumptions but also on the strength and generality of the counteracting tendencies he identified. Proponents of the law typically downplay the counteracting tendencies. Marx lists six of them in Capital but “two of these (foreign trade and an increase of stock capital) fail to conform to his initial assumptions (a closed economy and a concept of surplus value that precludes the facts of distribution).” 18 But under real crisis conditions we cannot afford, as his commentaries on the crises of 1848 and 1857 show in Volume 3, to exclude questions of finance and stock capital since they play such an important part in the form of appearance if not the underlying causes of crises. Nor can we afford, on the evidence offered in the chapters on money and finance to ignore the vacillating influences of foreign trade imbalances (bullion drains as they were then
referred to). Marx emphasizes of course the two counteracting influences given by Roberts, but adds “depression of wages below the value of labour power; and an increase in the industrial reserve army” which protects certain sectors from the ravages of technological progress by lessening the incentive to replace labour power by machines (technologies invented in Britain were not deployed there, he points out in volume 1 of Capital, because of surpluses of labour power but were used in the United States where labour power was scarce). 19

In the *Grundrisse*, Marx lists a variety of other factors that can stabilize the rate of profit “other than by crises.” If the profit rate is to be resuscitated then one way a crisis can do so is to produce a massive devaluation of the existing constant capital (the fixed capital in particular). But Marx also mentions, ‘the constant devaluation of a part of the existing capital (by which I presume he means premature obsolescence and devaluations particularly of fixed capital equipment as a result of technical change), the transformation of a great part of capital into fixed capital which does not serve as agency of direct production (investment in public works and urbanization, for example, all of which could circulate in return for interest only without any regard for profit of enterprise) and unproductive waste (such as military expenditures, which Marx considered equivalent to making commodities to be ditched in the ocean). He also importantly notes that the fall in the rate of profit can be “delayed by creation of new branches of production in which more direct labour in relation to capital is needed, or where the productive power of labour is not yet developed.” And finally, monopolization is treated as an antidote to the falling rate of profit presumably because of the reduced competitive pressure to innovate. 20
This is “a somewhat motley array of factors” to be taken into account. Some of them (such as monopolization and the opening up of new production lines) could be of overwhelming significance. Others, such as investment in fixed capital on the land and urbanization more generally are, as I have also tried to show elsewhere, crucially connected to crisis formation and resolution to the point where they are now playing a critical role (as was most obviously the case in 2007-8). The state-monopoly capitalism theorists of the French Communist Party towards the end of the 1960s considered the circulation of collective fixed capital in return for interest only as one of the major means for offsetting the falling rate of profit (it meant elements of collective constant capital could circulate at a discount as it were). The history of getting out of crises by “building houses and filling them with things” in the United States is well-known (and was crucial in the 1960s) and is now being replicated in China where a quarter of the recent growth in GDP has been attributed to housing construction alone. Conversely, property market crashes are a familiar trigger for more general crises (with 2007-8 the most obvious recent example but 1928 in the USA being a critical and overlooked historical example).

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

In the subsequent chapter in Volume 3 on “The Development of the Law’s Internal Contradictions,” matters get much more interesting. The misleading title of the chapter was imposed by Engels. It implies that the law/tendency remains intact but has inner contradictions when the chapter is really about what happens when the assumptions made in deriving the law are dropped. The result is a far vaster portrait of the processes of crisis formation with multiple cross-cutting contradictions. The language changes such that crises are here firmly
represented as violent explosions that serve to restore equilibrium (not moments that betoken the end of capitalism). Problems of realization in the market, the production of the world market, relations with non-capitalist social formations, degrees of centralization and decentralization of capital, monetary disturbances and speculative excesses located within the credit system, devaluations and the problematics of fixed capital circulation, are all introduced along with concepts such as the overaccumulation of capital, the role of the so-called “plethora” of capital and the chronic inability to meet the needs of whole populations in a “humane way.” These all become part of the story of crisis formation.26 Marx here poses multiple questions where Engels editing suggests he had clear and unequivocal answers. “The problem is,” says Geert Reuten, one of those deeply familiar with the manuscripts, “that Engels, in his editorial work, polished away most of Marx’s worries and so made it appear as if Das Kapital, Volume III was a near-to-final text instead of just a research manuscript….27 It is out of this maelstrom of intersecting forces and multiple contradictions that I have constructed over the years my own sense of how crises unfold under capitalism and how the crisis tendencies never disappear but get moved around.28

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

This turns up in the crucial chapter fifteen of Volume 3 as a restriction on the capacity for realization due to “antagonistic conditions of distribution, which reduce the consumption of the vast majority of society to minimum level.”

Marx, however, confuses matters by exploring opposing possibilities. After remarking that it is “a pure tautology to say that crises are provoked by a lack of effective demand or effective consumption” because capitalism “does not recognize any other form of consumer other than those who can pay,” he then adds “that crises are always prepared by a period in which wages generally rise, and the working class actually does receive a greater share in the part of the annual product destined for consumption.” Crises can therefore occur in periods of rising working class wages and/or rising expectations as well as in periods of wage repression and inadequate demand. Marx had shown in his general law of capital accumulation how wage increases accompanying phases of vigorous accumulation would cut
into profits and so diminish accumulation.\textsuperscript{33} Crises can come, we can conclude, from quite different directions. If wages go too high then there is a crisis of accumulation as the profit share contracts while if wages are too low then lack of effective demand will pose a problem. Crises consequently depend on conjunctural and even highly localized conditions.

Marx’s theory of the falling rate of profit should be treated as a contingent rather than a definitive proposition. It says, in effect, that if there is a fall in the rate of profit here is one of many ways in which it could come about.\textsuperscript{34} Whether or not this particular mechanism is the one at work depends, however, upon careful analysis of actually existing dynamics. My own guess is that crises produced by this mechanism are relatively rare. This in no way contradicts Marx’s broader point concerning the de-stabilizing and often disruptive effects of technological change in the history of capitalism. These effects have frequently been implicated in crisis formation. In the case of fixed capital formation and use, for example, accelerating technological changes have sparked quite massive waves of devaluation of the existing fixed capital including the massive amounts invested in the built environment and in physical infrastructures. We should take seriously Marx’s observation that “the cycle of interconnected turnovers embracing a number of years, in which capital is held fast by its fixed constituent part, furnishes a material basis for the periodic crises.”\textsuperscript{35} This observation parallels some of the arguments put forward regarding the role of devaluation of existing fixed capital as a counteracting influence over the profit rate. I find it interesting, however, that Marx’s explanation of this material basis for periodic crises has drawn very little commentary compared to that given over to the falling rate of
profit!
The waves of technological change that have had the effect of creating a disposable reserve army of unemployed workers can likewise feed back into the circulation of capital as diminishing effective demand. The sharp crash
that initiated the crisis of 2007-8 looks very different from the long-drawn out saga of deindustrialization and devaluation that swept across traditional industrial production districts throughout the world after 1980 or so. The factories in the Ruhr, the American Mid-West, industrial Britain and even in Mumbai were closed down, in part as a result of revolutions in the technologies of transport and communications that made a new globalization possible. While some may reasonably claim that these were all localized and not general crises engulfing places like Detroit, Essen, Sheffield, Mumbai and the industrial cities of Northern China, it turns out that there never has been a truly global crisis where everyone everywhere was simultaneously engulfed, even within what we broadly refer to as “the capitalist world” (i.e. not including that part of the world outside of capital’s trading networks). There were in fact plenty of places scarcely affected by the events of 2007-8 (much of Latin America for example) and the long-drawn out and painful deindustrialization of the traditional centers of manufacturing during the period 1980 to 2000 was felt all across the capitalist world.

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

Before submitting pacifically to the weight of the empirical evidence that has been amassed by Roberts and many other proponents of the falling rate of profit theory, some serious questions have to be asked. Since I am not inclined or qualified to attempt any sophisticated counter-analyses of data sets, I shall confine my remarks to some very general observations on the difficulties of assembling relevant and meaningful data.
Data that show a falling rate of profit do not necessarily confirm the existence of the specific mechanism to which Marx appealed. This is, for me, the most important objection to much of the literature on the subject. Profit rates can fall for any number of reasons. As we have seen, lack of adequate aggregate effective demand in the market could produce falling profits as could rising wages impelled on by heightened class struggle. When technological change is introduced then the net effect is to produce greater inequalities. In the absence of any opposition or countervailing force the rich get richer and the poor poorer. This is how Marx’s general law of capital accumulation works. On the other hand, an organized working class backed by powerful state institutions could force wage rates so high as to generate a crisis of falling profits. This happened 1965-75 in North America and Europe as wages rose, profits fell and productivity stagnated thanks to recalcitrant working class power.

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

There are all sorts of reasons why profit rates might fall and no amount of graphs depicting falling profit rates give us any reason to accept any one particular mechanism rather than another. The only way forward here would be to measure the direct impacts of changing labor productivity on profit rates. In measuring labor productivity, Marx distinguished between the organic and the value compositions of capital – the former being defined by the ratio of constant to variable capital within an enterprise or even within a whole sector or “department” while the latter measures productivity for capital as a whole. Most theorists treat the two terms as synonymous when they are not. Both cases are highly sensitive to turnover times (of fixed capital in particular) and to degree of vertical integration in production.\(^{36}\) The form of industrial organization is a crucial issue to its measure. Imagine an iron ore mine on top of which is built a steel plant that feeds the production of cars directly. The constant capital would be that used in the iron mine plus the energy inputs and fixed capital in the other phases of such an integrated production system. Most of the total value would be attributed to that added by labour. Now split the process up into separate firms producing iron ore, steel and then cars. The constant capital on average would increase while the labour share would decrease markedly. While the example I use may seem a bit extreme, consider how the increase in sub-contracting these last forty years might have affected value compositions.

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

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

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

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

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

But there are some further tricky questions that have to be negotiated. There is a gap between where profit (value) is produced and where it may be realized. Value produced in the factories of China may be realized by Walmart in the United States and part of what Walmart realizes in Oklahoma may be taken by the rentiers or the financiers in New York City.\textsuperscript{41} The recorded rate of profit in manufacturing may be falling because the extractions of the merchants, the financiers and the landlords may be rising. The marginal profit rate of Apple (in the USA) is reported to be 27 percent whereas Foxconn (in China) which produces Apple computers reports three per cent. The power relation between merchant and producer capital prevents the equalization of the profit rate. Conversely, as Marx points out, profit rates in industry may rise with reductions in rents and taxes. The direct producers may concede higher
wages and receive lower profits but the workers may then have their gains extracted back by predatory landlords, telephone and credit card companies, merchants, and the like, who practice a politics of accumulation by dispossession on the working classes. Capital is a flow as are the revenues generated out of value production. The patterns of such flows of capital and revenues are intricate and it is not clear that data collected at one point in the system accurately represent the movements in their totality.

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

There are good reasons to be skeptical of some of the data sets available. Reports in the business press these days suggest that businesses in the United States are operating at a high rate of profit while the data series that Roberts and others produce point to the opposite conclusion. A report from the Federal Reserve shows a startling growth in the mass if not the rate of profit. “From 2000 to the present, quarterly corporate after-tax profits have risen from $529 billion to $1.5 trillion. On an annual basis, growth was from $2.1 trillion to $6 trillion in annual after-tax profits.”42 The business press also reports that the rate of reinvestment is at an all time low and that there appears to be little interest in expansion (hence low growth and sustained wage repression) which in some quarters is attributed to lack of
effective demand in the market (due in part to lack of reinvestment). There is a lot of anecdotal evidence in financial publications to indicate a strong revival in profit rates in the United States coupled with restrictive profit opportunities because of lack of demand and austerity politics (the three big centers of lagging effective demand in the US are reported to be the housing market and state and federal government expenditures restrained by austerity politics). Most of the data sets on profit rates are compiled from within the nation state framework of data reporting and in all but a very few instances make no pretence of representing the global situation.\textsuperscript{43} What the profit rate is in China, Indonesia, India, Bolivia and Mali (to say nothing of contemporary Syria and Iraq) and how all of this might be aggregated into some global data on the rate of return on capital is simply unknown if not unknowable. A data set compiled for the USA is useful in its own right, of course, but it cannot be taken as evidence of what is happening to global capital even assuming all the other objections already raised are laid aside.

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

But when we look at the overall labour participation rate on a global scale, we see a massive increase in the global labour force. An ILO report from 2007 concluded, for example, that “in 2005, there were an estimated 3.05 billion individuals in the global labour force, a figure that represents an increase of more than 1.1 billion – more than 35 per cent – since 1980.”45 Much of the growth in these years was driven by population growth and the accession of ex-communist states to the world market. Over a much longer time horizon the movement of women into the labour force has been hugely significant along with the destruction of peasant ways of subsistence living. Without dwelling on the regional details and differences (important though these are) this clearly does not suggest any decrease in the global labour force available for value creation and surplus value extraction. The extra 1.1 billion workers suggests a dramatic increase in the prospects for rising rather than falling surplus value extractions and possibly rising rather than falling profit rates.

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

For example, Marx insisted that transportation is value and potentially surplus-value producing. The booming logistics sector is rife with value and surplus value production. And while General Motors has been displaced by MacDonalds as one of the largest employers of labour in the US why would we say that making a car is productive of value while making a hamburger is not? Restaurants are value and surplus value producing (even waiters can be viewed as part of the collective labourer in value production). All we then have to do is to suggest that the subcontracted designers, branding and advertising firms, scientists and technical personnel, even consultants and accountants are all part of the collective labourer and we are well on the way of taking on board a very significant portion of the 1.1 billion extra workers in the field of value production. Mis-perceptions arise because what are conventionally defined as services often turn out to be productive activities. In much of the advanced capitalist world most of the large factories have been long-gone and so it would seem that value-and surplus-value producing labour has disappeared. But when I stand at the corner of 86th and Second Avenue in Manhattan I see innumerable delivery, bus and cab drivers, the workers from Verizon and Con Edison digging up the streets to fix the cables, down the street the water mains are being fixed while other workers are constructing the new subway, workers are putting up scaffolding on one side of the street while taking it down on the other, the coffee shop is making coffees and in the local 24-hour diner workers
are scrambling eggs and serving soups. Even that guy on the bicycle delivering Chinese take-out is creating value.

These are the kinds of jobs, in contrast to those in conventionally defined manufacturing and agriculture, that have increased remarkably in recent times and they are all value and surplus value producing. From this standpoint Manhattan is an island of huge value creation, though in the case of restaurants most of the surplus value is sucked out by escalating rents which means that the proprietors, after taxes and interest are also paid out, have no option except to super-exploit their workforce as well as, in many instances, themselves in order to eke out a marginal profit of enterprise. In Marx’s day less than five percent of the world’s population was urbanized and eating out was the exception rather than the rule. Now more than half the world’s population lives in cities and eating out (even if it is only at the local hot-dog or tamale stall) is much more common and these urban jobs have proliferated remarkably. If only half of those employed in the production and reproduction of urban life are employed in the production of this sort of value and surplus value, then this easily compensates for the losses due to the industrialization of agriculture and the automation in conventional manufacturing.

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

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

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

There is, I believe, no single causal theory of crisis formation as many Marxist economists like to assert. On a variety of occasions, Marx himself made this clear. “The contradictions existing in bourgeois production,” Marx wrote, “are reconciled by a process of adjustment, which, at the same time, however, manifests itself as crises, violent fusion of disconnected factors operating independently of one another yet correlated.” (my italics).48 There is, throughout his work, a great deal of investigation not only into the different contradictions but also into the kinds of disconnected but correlated factors that come together in particular crises. There is no point in trying to cram all of the fluidity and complexity of capital circulation into some
unitary theory of a falling rate of profit. One of the beauties of reading and re-reading Marx is to encounter those eureka moments where he reveals through reflection yet another moving contradiction that produces yet another means whereby crises can be generated. Re-reading chapter 15 in Volume 3 on the unfolding of the law’s contradictions without Engels’s gloss and misleading title is a revelation. It lends support to the idea that even at the systemic level capitalism moves its crisis tendencies around, geographically, sectorally and from one nodal point to another (as money, commodity or production, for example) within the overall circulation process of capital that Marx defines.49 When, for example, the grand financiers of the reconstruction of Paris – the Pereire brothers who had, as Marx put it, the charming character of swindler and prophet – went bankrupt in 1867 as their credit empire constructed out of the rebuilding of Paris fell into ruins in part because of the machinations of the “gold bugs” like the Rothschilds; and when the municipal finances fell apart forcing Haussmann from power and crashing employment in such a way as to set off a wave of political protests that produced the Paris Commune (in the context of a foolish war and the siege of Paris by the Germans), when all of this happened then what point would there be in self-satisfiedly proclaiming that it is all a consequence of some hidden tendency for the rate of profit to fall?50 And when a similar scenario unfolds in New York City in the speculative property market crash of 1973 followed by the near bankruptcy of New York City in 1975, which proved the teething ground for the practices of neoliberal structural adjustment and austerity politics along with a politics of “save the banks and sock it to the people” (a politics blatantly repeated in and after 2008) all of which looked deeply reminiscent of what had happened in Paris in 1867,
then why not construct a crisis theory framework that speaks directly to such events?51

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

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

2007-08 was the culmination of a series of crises in which accumulation by dispossession, orchestrated largely through the credit system, became a significant lever of crisis formation. This was true in the East and SouthEast Asian crisis of 1997-8 and the multiple debt crises that preceded it. Just to add to the mayhem, the vulture financiers and the vampire rentiers have become ever more prominent these days as the barbaric outriders of the brutalist wing of the capitalist class as it strives for endless and limitless accumulation by dispossession within a restricted terrain of profitable possibilities. Their activities in buying up debt or foreclosed houses at distressed prices while renting them out and waiting for the speculative gain signal a cannibalistic mode of doing business that is far from minor or marginal to capital’s reproduction. The crisis in the housing market not only meant the massive devaluation of assets within what Marx called “the consumption fund” from the United States to Iceland, Ireland, Spain, Eastern Europe and beyond; it also created the opportunity for the transfer (much of it illegal) of the material assets from vulnerable populations to the hedge funds and private equity groups whose managers belong to the top one percent. This has been one of the most massive transfers of wealth from one class to another in U.S. history (paralleling what happened to family farmers in the 1930s). The ruling class, as always, never lets a good crisis go to waste!
In this context I find it interesting that Marx re-examined the concept of primitive accumulation in his chapter on “the law’s internal contradictions.” No longer construed as something buried in the past, it re-emerges as “a constant process in the accumulation and concentration of capital, before it is finally expressed here as the centralization of capitals already existing in a few hands and the decapitalization of many.” This process of decapitalization, or what I call “accumulation by dispossession,” Marx argues, “would entail the rapid breakdown of capitalist production, if counteracting tendencies were not constantly at work alongside the centripetal force, in the direction of decentralization.”55 Is this not a source of contradiction within contemporary capitalism? Is the current chronic inability of the capitalist class to decentralize its wealth and power and put a stop to its penchant to rob the world of asset values a significant element in the current malaise?56

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

Notes


3 Marx, K., *Grundrisse* p.750-54


5 This is the point that Calinicos does not understand in his recent dismissal of my arguments regarding the playing out of Marx’s exclusions throughout the three volumes of Capital. See Calinicos, A., *Deciphering Capital: Marx’s Capital and Its Destiny*, London, Bookmarks, 2014, pp.21-2.

6 Marx, K., *Capital Volume 1*, pp. 709-10

7 Marx, K., *Capital Volume I*, p.727

8 Andrew Kliman has been most strident in his claim that the crisis had nothing to do with financialization.

9 Marx, K, *Capital Volume 3*, p.357


12 See the summary of objections on Michael Roberts’ Blog: Michael%20Heinrich,%20Marx’s%20law%20and%20crisis%20theory%20%20%7C%20Michael%20Roberts%20Blog.webarchive

13 References to the crises are scattered throughout Marx’s texts on credit, banking and finance but are mainly concentrated in Marx, K, *Capital, Volume 3* chapters 30-34.

14 Mosely, F., “The Development of Marx’s Theory of the Falling Rate of Profit in the Four Drafts of Capital,” paper delivered to the MEGA symposium at the Institute for Economic and Historical Research, Amsterdam, October 10-12, 2014.

15 Heinrich


19 Marx, K., *Capital, Volume 1*, pp. 516-517

20 Marx, K. *Grundrisse*, 750-51


23 Harvey, D. *Rebel Cities: From the Right to the City to the Urban Revolution*, London, Verso, 2013, chapter 2


29 Marx, K., *Capital*, volume 3, p.615

30 Marx, K., *Capital*, volume 2, p.391

31 Marx, K. *Capital*, volume 3, p. 352


37 Marx, K., *Capital* Volume 1, p.644

39 Marx, K., Capital, Volume 1, p.197.


41 This is the implication of the first four chapters of Marx., K., Capital, Volume 2. See also Harvey, D., A Companion to Marx’s Capital, Volume 2, London, Verso, 2013, chapters 1 and 2.


43 A remarkable set of global data has, however, been compiled by Maito, Esteban Ezequiel, “The Historical Transience of Capital: The Downward Trend in the Rate of Profit since XIX Century,” unpublished paper, University of Buenos Aires, Argentina, n.d.

44 Marx, K., Capital, Volume 3, 356.


48 Marx, K., Theories of Surplus Value, Volume 3, London, Lawrence and Wishart, 1972, p.120.

49 This is the main argument in Harvey, D., The Enigma of Capital, London, Profile Publishers, 2010.


51 Harvey, D., Rebel Cities: From the Right to the City to the Urban Revolution, London, Verso, 2013, chapter 2.

53 Marx, K., *Capital*, Volume 1, p.209


55 Marx, K., *Capital*, Volume 3, pp.354-355; the MEGA manuscripts say “fewer” and not “few” hands so Engels editing made it seem as if the process of centralization was far more dramatic than indicated in Marx’s original text.

56 For all of its faults this is one of the key insights in Piketty, T., *Capital in the Twenty-First Century*, Cambridge, Mass., Harvard University Press, 2014.

David Harvey, a well-known Marxist geographer, recently published a draft paper (Harvey 2014) that vigorously criticises Karl Marx’s ‘law of the tendential fall in the rate of profit’ (LTFRP), its place within Marx’s theory of capitalist economic crisis, and its relevance to the Great Recession and the recession’s prolonged aftermath. The law says that the rate of profit tends to fall because of labour-saving technological progress under capitalism. By lowering costs of production, technological innovations tend to keep products’ prices from rising, and this makes it difficult for companies’ profits to increase as rapidly as the amount of capital they invested to produce their products.

Whether this process was among the underlying causes of the Great Recession is a matter of great political importance. At issue is whether policies intended to make capitalism work better—replacement of neoliberalism with statist capitalism, financial regulation, reduced inequality, policies that favor production over finance, and so on—can succeed in preventing major economic crises in the future. The theory of crisis rooted in the LTFRP suggests that such policies cannot ultimately be successful, because they leave intact the drive to maximize profit and the link between technological progress and falling profitability, which are part and parcel of every form of capitalism.

Harvey’s chief complaint is that the LTFRP and the theory of crisis based on it are mono-causal: it ignores other causes of crisis as well as counteracting factors, and its current proponents typically present it in a way that ‘exclude[s] consideration of other possibilities’. I will argue that this is just a strawman.
The real issue is not that anyone has advocated a *mono-causal* theory, but that Harvey is campaigning for what we might call an *apousa-causal* theory, one in which the LTFRP plays no role at all (*apousa* is Greek for ‘absent’). He is the one who is trying to exclude something from consideration. In light of his emphasis on capitalism’s ‘maelstrom of conflicting forces’ and its ‘multiple contradictions and crisis tendencies’, one might expect that he would urge us to consider all potential causes of crisis, excluding nothing. However, Harvey is not merely suggesting that other potential causes of crisis be considered alongside the LTFRP. He seems determined to consign it and the theory of crisis based on it to the dustbin of history. A large part of his paper is devoted to questioning whether the LTFRP is a genuine law, whether Marx really subscribed to it in the end, whether there is good evidence that the rate of profit fell, and whether it fell for the reason the law says it tends to fall. I will respond to all this as well.

Two other aspects of Harvey’s paper will also be discussed:

1. Harvey claims that the growth of the global labour force since the 1980s suggests that the LTFRP has not been operative. I will show that this claim is based on an elementary misunderstanding of the law.

2. Harvey claims that Marx argued that ‘if wages are too low[,] then lack of effective demand will pose a problem’. I will show that this contradicts his own recent interpretation of Marx’s text, (Harvey 2012) and argue that he got it right the first time.

Let me note that his attitude to the LTFRP is neither surprising nor unique. Although he writes that the theory of crisis based on Marx’s law ‘holds an iconic position within the Marxist imaginary’, in fact nothing has been more reviled. In academia as well as the political realm, other Marxists and leftists have
regularly denounced the supposed dogmatism of the theory and its supporters, and they have tried to exclude the theory from further consideration. For example, in their *History of Marxian Economics*, professors M. C. Howard and J. E. King (1992, p. xiii) wrote that the LTFRP ‘has done much damage to the intellectual credentials of Marxian political economy’, while Kshama Sawant’s organisation, Committee for a Workers’ International, recently suspended two ‘dogmatists’ from membership. It is particularly objectionable that efforts to exclude a potential explanation from consideration are presented as *opposition* to dogmatism, and that this spin is so often accepted.

**The labour force data**

Harvey cites a statistic which suggests that employment has increased markedly—the global labour force increased by 1.1 billion workers between 1980 and 2005—and he tries to use this as evidence against the idea that the global rate of profit has fallen. He devotes more than a thousand words to the topic, arriving at the conclusion that

those who attribute the difficulties of contemporary capitalism to the tendency of the profit rate to fall are, judging by this evidence of labour participation, seriously mistaken. The conditions point to a vast increase and not a constriction in surplus value production and extraction.

The data do indeed suggest that the *mass*—the absolute amount—of surplus-value or profit increased. But the issue here is what happened to the *rate* of profit, the amount of surplus-value or profit as a percentage of the volume of invested capital. An increase in the numerator of a ratio (rate) is not evidence that the ratio as a whole has increased. If the percentage increase in the denominator of the rate of profit, the invested capital, was greater than the percentage increase in the numerator, then the rate of profit fell. Given that Harvey does not show, and does not even suggest, that
the denominator failed to increase by a greater percentage, the statistic he cites is just not evidence that the rate of profit rose.

However, Harvey contends that the increase in employment is, by itself—irrespective of any increase in invested capital—crucial evidence that Marx’s LTFRP has not been operative since the early 1980s. ‘If the general theory of the tendency for profit rates to fall is correct, then the spread of labour-saving technological changes … should mean a tendency for the number of waged workers employed by capital to decrease. This was something that Marx himself freely acknowledged’.

This is simply incorrect. The passage that Harvey cites in support of his claim that Marx ‘freely acknowledged’ that the LTFRP implies declining employment actually says that labour-saving technical change (‘the development of productivity’) ‘reduces the total quantity of labour applied by a given capital’. (Marx 1991a, pp. 355–56; emphasis added) ‘Applied by a given capital’ means ‘applied by a capital of given size’. If, for example, the invested capital is originally $1 million and 10 workers are employed, while later the invested capital is $4 million and 20 workers are employed, the number of workers employed ‘by a given capital’— e.g., per million dollars of capital—has fallen from 10 workers to 5. This does not mean what Harvey takes it to mean, namely that the absolute volume of employment has fallen. The absolute volume of employment has doubled, from 10 workers to 20.

Furthermore, in an extended discussion near the start of his presentation of the LTFRP, Marx explicitly denied what Harvey says he ‘freely acknowledged’:

The law of a progressive fall in the rate of profit … in no way prevents the absolute mass of labour set in motion and exploited by the social capital from growing, and with it the absolute mass of surplus labour it appropriates …
The fall in the rate of profit does not arise from an absolute decline in the variable component of the total capital but simply from a relative decline, from its decrease in comparison with the constant component.

... The absolute magnitude of profit, its total mass, would thus have grown by 50 per cent, despite the enormous decline in the general rate of profit. The number of workers employed by capital, i.e., the absolute mass of labour it sets in motion, and hence the absolute mass of surplus labour it absorbs, the mass of surplus-value it produces, and the absolute mass of profit it produces, can therefore grow, and progressively so, despite the progressive fall in the rate of profit. This not only can but must be the case—discounting transient fluctuations -- on the basis of capitalist production. (Marx 1991a, pp. 322–24; emphases in original)

One would be hard pressed to put the point more definitively and emphatically. A rise in employment is just not evidence against the LTFRP.

Marx’s ‘apparent vacillation and ambivalence’

In an effort to justify his ‘long-standing skepticism about the general relevance of the law’, Harvey writes, ‘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’. Yet what Harvey construes as vacillation between ‘tendency’ and ‘law’ is in fact an unavoidable distinction between what occurs in the world and what explains why it occurs. Marx noted that the rate of profit has a tendency to fall, and he put forward a law to explain why it tends to fall. Where is the vacillation?¹

Nor did Marx vacillate between calling the LTFRP a ‘law’ and calling it a ‘law of a tendency’; he regarded all economic laws as laws of tendencies. In chapter 10 of volume 3 of Capital, for instance, he wrote, ‘We assume a general rate of surplus-value of this kind, as a tendency, like all economic laws …’. (Marx 1991a,
The point is simple enough: one cannot identify a law that accounts for every fluctuation in an economic variable like the rate of profit, because these fluctuations are not purely law-governed. They are affected by all manner of contingencies and impediments. One can only identify laws of the tendencies the variable exhibits amid and despite the contingencies and impediments.

Yet Harvey has additional grounds for his belief that Marx was ambivalent about the LTFRP. For one thing, ‘Marx made no mention of any tendency of the rate of profit to fall in his political writings such as The Civil War in France’. The Civil War in France also makes no mention of any phenomena such as surplus labour and surplus-value. Would Harvey regard this absence as legitimate evidence that Marx had doubts about the existence of surplus labour or surplus-value? Would he regard it as justification for ‘long-standing skepticism about the[ir] general relevance’?

As further evidence of Marx’s supposed doubts about the LTFRP, Harvey notes that his analyses of the crises of 1848 and 1857 depict them as ‘commercial and financial crises’ and refer to the falling rate of profit only in passing. Michael Krätke, a Marx-scholar, has made a similar argument. This may seem like important evidence to those accustomed to now-prevalent Marxist terminology, in which recessions and depressions are called crises, but word usage has shifted a good deal since Marx’s time. When he referred to economic crises, he meant commercial and financial crises. He distinguished these crises from the economic downturns they trigger, characterising the successive phases of the business cycle as ‘periods of moderate activity, prosperity, over-production, crisis and stagnation’, and ‘periods of average activity, production at high pressure, crisis, and stagnation’. (Marx 1990, pp. 580, 785)

Moreover, Marx did not regard the tendency of the rate of profit to fall as an immediate cause of commercial or financial crises. He
argued that a decline in the rate of profit leads to a crisis indirectly and after some delay. It promotes overproduction (by, e.g., depressing productive investment demand). It also promotes financial speculation and swindling: ‘If the rate of profit falls … we have swindling and general promotion of swindling, through desperate attempts in the way of new methods of production, new capital investments and new adventures, to secure some kind of extra profit’. It is only when debts finally cannot be repaid that a crisis—that is, a financial crisis—erupts, and the crisis then leads to stagnation: ‘The chain of payment obligations at specific dates is broken in a hundred places, and this is still further intensified by an accompanying breakdown of the credit system, which had developed alongside capital. All this therefore leads to violent and acute crises, sudden forcible devaluations, an actual stagnation and disruption in the reproduction process, and hence to an actual decline in reproduction’. (Marx 1991a, pp. 349–50, 367, 363)

Once we understand that Marx was referring to ruptures of commercial and financial relations when he used the term ‘crisis’, and that he recognised the existence of many intermediate links between the fall in the rate of profit and the outbreak of crisis, it is neither surprising nor particularly significant that he sometimes discussed crises in abstraction from the tendency of the rate of profit to fall. He was just being rigorous and dialectical, dealing with one thing at a time rather than creating a chaotic jumble by dealing with everything at once.

Harvey also remarks that ‘Marx never went back to the falling rate of profit theory’ after 1868 and that ‘it does seem passing strange that Marx would chose to ignore in the last dozen years of his research what he had earlier dubbed in the Grundrisse as “the most important law of political economy”’. However, the inference that Marx ‘ignore[d]’ the LTFRP does not follow from the evidence. When I have resolved a theoretical or empirical question to my
satisfaction, I don’t continue to dwell on it obsessively, but move on. That doesn’t mean that I ignore the answer I arrived at; I take it as given. The evidence suggests to me that Marx worked in a similar way. In what way does Harvey work?

So the real question is whether, before moving on, Marx was satisfied with his explanation of why the rate of profit tends to fall. The evidence leaves little room for doubt. In response to Michael Heinrich (who recently made arguments similar to Harvey’s), my co-authors and I presented ‘considerable evidence in Marx’s correspondence – spanning the period from 1865 to 1877 – that he was satisfied with his theoretical results and that he regarded *Capital*, not only the first volume that he published but also the volumes that remained unpublished, as a finished product in a theoretical sense’ (Kliman, Freeman, Potts, Gusev, and Cooney 2013) Heinrich has not responded to this evidence, and Harvey refrains from discussing it.

As for Marx’s view that the LTFRP was the most important law of political economy, this was not a one-off comment made early on and then ‘ignored’. He affirmed this not only in the 1857-58 *Grundrisse*, but also in his 1861–63 economic manuscript: ‘This law, and it is the most important law of political economy, is that the rate of profit has a tendency to fall with the progress of capitalist production’. (Marx 1991b, p. 104; emphasis in original) Later, when writing volume 3 of *Capital*, Marx went beyond the claim that the LTFRP was the most important law. He now contended that it was so important that all of political economy since Adam Smith had revolved around a search for this law: ‘given the great importance that this law has for capitalist production, one might well say that it forms the mystery around whose solution the whole of political economy since Adam Smith revolves’. (Marx 1991a, p. 319)
The mythical mono-causal theory

Harvey’s inadequate understanding of Marx’s text is also what lies at the root of his charge that the LTFRP and theory of capitalist crisis rooted in it are mono-causal. He contends that Marx’s law is derived from a ‘highly simplified model[ ]’ that rests on a number of ‘draconian’ assumptions. That is, the law is valid only if all of the assumptions hold true in the real world. But by virtue of these assumptions, the law excludes all potential causes of falling profitability other than labour-saving technical change, and it excludes all factors that can keep the rate of profit from falling by counteracting the effect of technical change. Thus the law is mono-causal, as is any theory of crisis that employs it without combining it eclectically with extraneous factors.

Yet Harvey acknowledges that the draconian assumptions are not to be found in Marx’s text: ‘While Marx scrupulously lays out his assumptions in Volume 1 [of Capital] he does not do so in the case of the falling rate of profit theory [in Volume 3]’. How, then, does he know that Marx actually made these draconian assumptions?

In one case, at least, he is demonstrably wrong. According to Harvey, Marx’s law assumes that all commodities (‘with the exception of labour power’) are bought and sold at their actual values, rather than at prices which differ from these values. That is just not the case. The law is the subject of Part 3 of the third volume. Marx has already, in Part 2, derived the result that, however large the discrepancies may be between commodities’ values and the prices at which they actually sell, the total price of output in the economy as a whole is equal to (and thus limited by) the total value of this output. Consequently, when the price that one firm or industry receives for its product exceeds the product’s value, this gain comes purely at the expense of an offsetting loss incurred by other capitalists. The prices of their products are less...
than their values. And it follows from this, first, that total profit is equal to (and limited by) the total surplus-value that has been created, and second, that discrepancies between prices and values leave unaffected the economy-wide rate of profit to which the LTFRP pertains.\(^3\)

These *results*, not some *assumption* that everything sells at its value, are the basis upon which Marx (1991b, p. 104; emphases in original) derived the law of the tendential fall in the rate of profit:

We have seen that [the rate of profit] is different for the individual capital [from] the ratio of the surplus value to the total amount of the capital advanced. But it was also shown that considering the … *total capital of the capitalist class*, the average rate of profit is nothing other than the total surplus value related to and calculated on this total capital …. Here, therefore, we once again stand on firm ground, where, without entering into the competition of the many capitals, we can derive the general law directly from the general nature of capital as so far developed. This law, and it is the most important law of political economy, is that the *rate of profit has a tendency to fall with the progress of capitalist production*. In general, Harvey turns Marx’s law into a model that depends on a host of restrictive assumptions by construing the law as narrowly as possible. He does not regard the whole of Part 3 of the third volume, but only the material dealing with what Marx called ‘the law as such’ (*das Gesetz als solches*), as a presentation of the law. This makes the law seem mono-causal and disconnected from other phenomena and institutions that Marx discusses later in Part 3. It seems not to be a law that operates *amid* various counteracting factors and *through* the intermediation of the financial system (as I discussed above), but an other-worldly abstraction that can be called a law only under imaginary conditions that exclude and ignore so much that matters in the real world.

Harvey says that Marx’s ‘exclusion[ ]’ of so much ‘severely restricts [the law’s] applicability’. Although he knows that Marx
went on to introduce other phenomena and institutions into the analysis, his cordonning off of ‘the law as such’ prevents him from recognising this as evidence of the multi-causal character of the LTFRP. The introduction of additional phenomena and institutions into the analysis no longer seems to be a dialectical enrichment of the law that describes it in the concrete forms in which it manifests itself, but a tacit admission that the conditions which need to be present in order for the law to operate are not in fact present. The law seems not to ‘remain[] intact’. Marx seems to be engaged in a separate discussion from before, one concerned with ‘what happens when the assumptions made in deriving the law are dropped’. He seems to be calling the status of the law into question, exhibiting his ‘vacillation and ambivalence’. And we seem to be in need of a very different framework for crisis theory, an unstructured space populated by a host of potential explanatory factors and phenomena that have no intrinsic connections to one another, factors and phenomena too distinct from one another to be ‘cram[med …] into some unitary theory’.

The text need not be read in this way. And since it need not, it should not; uncharitable reading is not good interpretive practice.

No sophisticated methodological discussion is needed to understand what’s wrong with the charge of mono-causality. The issue is simple. If I appeal to the universal law of gravitation in order to explain why apples have a tendency to fall off trees, without mentioning other factors that can make them fall, like the blowing of the wind, or counteracting factors, like air resistance, I am not assuming that these other things don’t exist. Much less am I constructing a mono-causal model that excludes them and which is therefore severely restricted in applicability. I am not doing so even if I explain that the law of gravitation follows from Newton’s second law of motion and refrain from introducing other factors into the equation when I show how it follows. If I then go on to talk
about air resistance and the blowing of the wind, I am not exhibiting my ambivalence, vacillating, or admitting that the universal law of gravitation operates only in a vacuum, but fails to operate in the real world.⁴

Harvey is correct that Marx’s law is not the ‘absolute truth’ of capitalism’s dynamics. In other words, it is not their sole cause. It does not even account for every blip in the trajectory of the rate of profit. But that is not the purpose of the law. Its purpose is ‘merely’ to show that Marx’s value theory, in conjunction with his theory of capital accumulation, can account for the fact that the rate of profit tends to fall.

For the most part, Harvey is quite vague about exactly who the modern-day objects of his criticisms may be. For example, he alleges that the crisis theory rooted in the LTFRP is ‘typically presented’ by its current proponents ‘in such a way as to exclude consideration of other possibilities’ and that ‘many Marxist economists like to assert’ that there is a ‘single causal theory of crisis’. The fact that he refrains from naming names makes it hard to answer his charges. At one point, however, he claims not only that ‘[s]ome proponents’ of the law ‘suggest … that financialisation had nothing to do with the crash of 2007–8’, but also that ‘Andrew Kliman has been most strident in his claim that the crisis had nothing to do with financialisation’. However, I do not claim this stridently. I do not even claim it while paying due deference to my superiors. I claim the opposite: ‘Of course, a financial crisis triggered the recession, and phenomena specific to the financial sector (excessive leverage, risky mortgage lending, and so on) were among its important causes’. (Kliman 2012, p. 6)

The sentence I have just quoted comes from the first chapter of my book on the underlying causes of the Great Recession.⁵ Part of the next chapter ‘focus[es] on two intermediate links—low profitability
and the credit system—that connect the fall in the rate to profit … to the latest economic crisis and slump’. (Kliman 2012, pp. 16–17)
And chapter 3, devoted to the financial crisis of 2007–8, discusses the following: the Federal Reserve’s excessively easy-money policy after the dot-com bubble of the 1990s burst; securitisation of mortgage loans; subprime lending; home-equity lines of credit; rising loan-to-value ratios for mortgage loans; lenders’ rising leverage ratios and reduced capital requirements; the rise in household debt during the 1990s and 2000s; the psychology that gave rise to the dot-com and home-price bubbles; the disastrously incorrect forecasting models of the credit-rating agencies; Congress’ initial rejection of the TARP (Troubled Assets Relief Program) bailout; and the inflow of savings from abroad that made its way into the U.S. If this is Harvey’s best example of denial that financialisation was a cause of the 2007–8 financial crisis,6 or of a mono-causal approach, I would hate to see his other examples.


References

- ________. 2014. ‘Crisis Theory and the Falling Rate of Profit’.


• Kliman, Andrew, Alan Freeman, Nick Potts, Alexey Gusev, and Brendan Cooney. 2013. ‘The Unmaking of Marx’s Capital: Heinrich’s Attempt to Eliminate Marx’s Crisis Theory’.


*Notes*

1 See Kliman, Freeman, Potts, Gusev, and Cooney (2013) for a discussion of the law’s function and the meaning of ‘law’ in this context.
He contends that volume 3 of Capital retains the assumption, made throughout much of volumes 1 and 2, that ‘[a]ll commodities trade at their value (with the exception of labour power)’. However, the assumption in question does not exclude labour-power. By assuming that labour-power, too, is purchased at its full value, Marx was able to explain how profit arises in production, not the market, and to explain this without abandoning the idea that commodity exchange is ‘in fact a very Eden of the innate rights of man … the exclusive realm of Freedom, Equality, Property, and Bentham’. (Marx 1990, p. 280)

I am aware of the allegation that Marx’s derivation of these results has been proven to be internally inconsistent, but that is only a pernicious myth. See chap. 8 of Kliman (2007).

I think this analogy to Marx’s procedure holds strictly, point by point. The law of gravitation is the analogue of the LTFRP; the second law of motion is the analogue of the law of the determination of value by labour-time (‘law of value’).

Harvey cites my book elsewhere in his paper, but he provides no evidence or citation to support his version of what I claim.

Shannon Williams and I (Kliman and Williams (2014)) have shown that financialisation was not the cause of the fall in U.S. corporations’ rate of capital accumulation during the decades that preceded the Great Recession. That is of course an entirely different matter.
The first part of this article focused on David Harvey’s interpretation (Harvey 2014) of Marx’s law of the tendential fall in the rate of profit (LTFRP) as capitalist production increases—a law Marx identified as ‘the most important law of political economy’. It remains to address Harvey’s belief that the LTFRP has not in fact been operative since the 1980s.

The labour-force data discussed in part 1 constitute Harvey’s only ‘evidence’ that the LTFRP has not been operative; he provides no direct evidence regarding the rate of profit (i.e. the amount of profit as a percentage of the volume of invested capital). However, he does challenge the evidence that has been put forward by myself and others which indicates that the rate of profit fell throughout the 1980s and 1990s (see Figure 1).

**Figure 1. U.S. Corporations' Rate of Profit**
Harvey says that ‘some serious questions have to be asked’ about this evidence. He is quite right, and he asks crucially important questions. The problem is that his discussion proceeds as if his questions are ones that we have never heard nor taken into account. They are actually long-standing, standard questions. I for one have taken all of them into account when gathering and interpreting my data. There is therefore no need to respond to them; my analyses and interpretations of the data have already anticipated and dealt with them. I simply need to make clear how they have done so.²

What Harvey calls his ‘most important objection’ to ‘much of the falling-rate-of-profit literature’—once again, he is vague about the object of his critique—is the fact that ‘[p]rofit rates can fall for any number of reasons’. Therefore ‘[d]ata that show a falling rate of profit do not necessarily confirm the existence of the specific mechanism to which Marx appealed’ (labour-saving technical change).

This is exactly right. Thus, when I considered the trajectory of U.S. corporations’ rate of profit from the end of World War II to the Great Recession and I concluded that ‘Marx’s law of the tendential fall in the rate of profit fits the facts remarkably well’ in this case, (Kliman 2012, p. 137) my conclusion was not based on the mere fact that the corporations’ rate of profit fell. It was based on a ‘decomposition analysis’ that separates out (decomposes) various potential causes of the fall and measures the effect that each one had on the rate of profit. Moreover, because the standard way of decomposing the rate of profit is not particularly appropriate when conducting a causal analysis (for a reason stressed by Harvey), I decomposed it in a different manner.

Traditionally, the rate of profit has been decomposed into the rate of surplus-value (or ratio of profit to employee compensation) and a function of the value composition of capital (or ratio of the
constant to the variable components of the capital-value advanced (invested)). This is fine in some contexts, but the nominal value composition of capital that researchers construct is different from the value composition to which Marx refers. It is affected not only by the relative amounts of value invested to acquire means of production and hire workers, but also by changes in the rate at which commodities’ money prices rise in relation to the commodities’ actual values. Because two different factors affect it, movements in the nominal value composition have no clear-cut, unambiguous meaning. For example, when the nominal value composition remains constant, as it did in the U.S. during the 1960s and 1970s, we cannot conclude that the relative amounts of value invested to acquire means of production and hire workers also remained constant. It is possible that relatively more value went to acquire means of production, which tends to raise the value composition, but that this effect was offset by accelerating inflation. As Harvey correctly emphasises, this is a ‘major problem’.

My alternative decomposition dealt with this problem by separating the two determinants. I decomposed the overall movements in the rate of profit into

1. movements caused by changes in the rate at which commodities’ money prices rise in relation to the commodities’ actual values;
2. movements caused by changes in the ratio of profit to employee compensation, and
3. movements caused by ‘everything else’.

I found that, although the first two causes had been important during certain shorter periods, neither of them had a substantial effect on the rate of profit in the long term—that is, when we consider the postwar era as a whole. Almost the entire long-term
fall in the rate of profit was therefore caused by changes in ‘everything else’.

But once (1) and (2) have been set aside, it follows mathematically that ‘everything else’ is just the ratio of employment to the amount of capital invested in fixed assets, as measured in terms of labour time. Almost all of the long-term fall in the rate of profit is attributable to the decline in this ratio. In other words, it is attributable to the fact that employment consistently grew less rapidly than capital accumulated. This is precisely how Marx’s law explains the long-term tendency of the rate of profit to fall. Thus, the law accounts for almost all of the fall in U.S. corporations’ rate of profit.

The ratio of profit to employee compensation had little effect on the rate of profit because it changed very little. (It fell a bit during the early part of the postwar period, but had no upward or downward trend between 1970 and the Great Recession.) It is important to emphasise that the long-term stability of this ratio is not a statistical mirage caused by the fact that the U.S. government classifies the pay of CEOs and other top corporate executives as employee compensation rather than as profit. Recent estimates of mine (see Kliman 2014b) indicate that re-classification of top executives’ pay as profit makes very little difference. Yes, their pay skyrocketed in recent decades, but there were simply too few top executives for this to have had much effect on the numbers. Between 1979 and 2005, the rising share of the product received by managers in ‘the 0.1%’ and ‘the 1%’ (the top 0.1 percent and top 1 percent of the income distribution) depressed other business-sector employees’ share by only 0.4 and 0.6 percentage points, respectively, according to my estimates.

Another of Harvey’s objections to the falling-rate-of-profit evidence is that ‘[t]here is a gap between where profit (value [sic])
is produced and where it may be realised. ... The patterns of ... flows of capital and revenues are intricate and it is not clear that data collected at one point in the system accurately represent the movements in their totality'. He is correct once again. It would be wrong to conclude from the data discussed above—which pertain to the profitability of domestic capital investment—that there was a decline in U.S. corporations’ overall rate of profit, on foreign as well as domestic investment. My conclusion that the rate of profit fell was instead based upon consideration of both the foreign and the domestic accounts. Government data on U.S. corporations’ capital investments abroad and their profits from investment abroad are available from the start of 1983 onward. They indicate clearly that U.S. multinational corporations’ rate of profit on foreign investment trended downward substantially between the start of this period and the Great Recession (see Figure 2). Because the denominators of the domestic and foreign rates of profit measure somewhat different things, the two data sets cannot properly be combined, and thus we cannot ascertain the exact extent to which U.S. corporations’ overall rate of profit fell. However, the fact that both the foreign and domestic rates of profit declined does mean that we can be confident that the overall rate of profit did indeed fall.

**Figure 2. U.S. Multinational Corporations' Rate of Profit Abroad**
Harvey also notes correctly that U.S. multinationals use ‘transfer pricing’ to shift profits generated in one country onto the books of a subsidiary in a different country where they are not taxed or are taxed at a lower rate. He could have added the fact that multinationals’ foreign profit and investment data are attributed to the countries in which their foreign subsidiaries are incorporated, which frequently differ from the countries where production takes place and the products are sold. As a result, it is difficult if not impossible to know what the multinationals’ rate of profit in any particular country really was. But this does not matter insofar as the total picture is concerned. Transfer pricing schemes allow corporations to shift around profits and titles to investments, but they do not affect the total volume of profit or investment. Harvey claims that transfer pricing allows profits to be ‘disguise[d]’, but he provides no evidence and I know of no such evidence. Shielding profits from the reach of tax authorities is not the same thing as disguising them.

(after-tax income from foreign direct investment as a percentage of accumulated foreign direct investment)
The evidence discussed above pertains to U.S. corporations only. Harvey objects that ‘it cannot be taken as evidence of what is happening to global capital’. Indeed it cannot, but what makes this fact a legitimate objection in this context? The topic of his paper is the fall in the rate of profit as a potential cause of economic crisis, and he is well aware that the latest crisis began in the U.S. before it spread throughout the world ‘through contagions in a global financial system’. Since the U.S. was the epicentre of the crisis, and its subsequent spread elsewhere has a straightforward financial explanation, what we need to focus on is whether and how a fall in the U.S. rate of profit, not the global rate, was an underlying cause of the crisis.

Harvey notes that profitability has rebounded substantially in recent years. Of course, post-recession trends have no bearing on whether a prior fall in the rate of profit was among the causes of the Great Recession. His point is rather that, since a measure of the rate of profit which fails to capture the post-recession rebound is suspect, what that measure tells us about a prior decline in profitability is suspect as well. I could not agree more, but all of the rates of profit I have computed (using more or less inclusive definitions of profit) do indeed capture the post-recession rebound. They all fell during the Great Recession—bottoming out 24 percent to 38 percent below their peak values of 2006—but by 2013, all of them had rebounded to levels close to or greater than those of 2006. The main cause of the rebound in profitability has been a sharp post-recession decline in workers’ share of the product, which in turn has been caused by companies producing more without increasing their workforces. It has not been caused by ‘wage repression’. Even after adjustment for inflation, employees’ hourly compensation has risen.

**Right the first time (on Marx’s ‘underconsumptionism’)**
Why does Harvey repeatedly stress that there are ‘conflicting forces’ and ‘multiple contradictions and crisis tendencies’? Why are we presented with the mono-causal LTFRP strawman? Notice what these two things imply when we take them together: since the law can hold true only if other causes of crisis and counteracting factors are assumed not to exist, we must jettison the law once we recognise that they do exist. Thus, as I noted in part 1, I suspect the talk of multi-causality is masking Harvey’s desire for an apousa-causal crisis theory. He is clearly not happy with the specific multi-causal theory of crisis that emerges, when all is said and done, from volume 3 of Capital—a theory in which the LTFRP remains intact and other determinants such as the financial system are linked to it and mediate the way in which it appears.

In particular, Harvey seems to want to impute to Marx an underconsumptionist theory of crisis—that is, a theory in which the lack of ‘effective demand’ is not the mediated result of the operation of the LTFRP and intermediate links such as businesses’ investment decisions and financial disturbances, but an independent, unrelated phenomenon produced by the masses’ restricted consumption. He attributes to Marx the notion that ‘if wages are too low[,] then lack of effective demand will pose a problem’. As evidence, he quotes a sentence in volume 3 of Capital (and a similar footnote in volume 2) in which Marx states that ‘the ultimate reason for all real crises always remains the poverty and restricted consumption of the masses’. (Marx 1991a, p. 615)

In the time-honoured fashion of underconsumptionists everywhere, Harvey strips away the context in which this sentence appears. When read in context, the sentence has nothing to do with periods in which low wages supposedly lead to inadequate demand, nor does the masses’ restricted consumption seem to be a ‘cause’ of crises in the modern sense of the word ‘cause’ (which Aristotle
called ‘efficient cause’). It is merely the condition that makes crises possible (an Aristotelian ‘formal cause’), not something that turns this possibility into a reality.\(^5\)

*Only a few years ago, Harvey had a much clearer understanding of the sentence and the passage in which it appears, and he took care to analyse it in context.* After asking where the extra demand comes from that enables the surplus-value that has been produced to be realised in money form, Harvey (2012, p. 25) noted that ‘Marx’s answer is as surprising as it is ruthlessly honest. In a two-class closed society comprised of capitalists and labourers, there can be only one source of the extra demand and that is from capital, since exploited labour could never furnish it’. In other words, it is capitalist firms’ demand for additional means of production—investment demand—and capitalist households’ demand for consumer goods that allows the portion of output that contains the surplus-value to be sold. Harvey then quoted from and summarised much of the passage in question, in order to make clear that the shortfall in demand that characterises economic crises is not due to the restricted consumption of ‘the masses’ or ‘exploited labour’, *since their consumption is always restricted—crisis or no crisis*. Thus, blaming the crisis on the masses’ restricted consumption is like blaming an airplane crash on gravity (which always exists, crash or no crash).

The shortfall in demand is instead caused by the fact that the extra demand that needs to come ‘from capital’ has temporarily stopped coming from capital. The key problem is that capitalism requires what Harvey (2012, p. 26) calls ‘continuous capital-accumulation’, i.e. additional investment in production, but a shortfall in demand occurs when and because the volume of additional productive investment is less than what is needed.
Since Harvey knows (or at least used to know) all this, why has he suddenly taken the ‘restricted consumption’ sentence out of context and pressed it into the service of an underconsumptionist ‘wage repression’ theory of crisis that is alien to Marx’s actual and ‘ruthlessly honest’ account of the demand problem? Perhaps the answer is that the ‘ruthlessly honest’ account takes us straight back to the fall in the rate of profit. Once we understand that a lack of demand is almost always a matter of inadequate investment demand, we are led to ask why investment is inadequate, and this question leads to two further ones: Has the volume of profit (surplus-value) that has been generated large enough to fund an adequate level of investment demand? And is the expected rate of profit on the new investments of today high enough to bring forth investment in the volume that is needed?

Inadequate profitability was a main cause of the long-term slowdown in U.S. corporations’ investment demand for productive fixed assets. Between 1948 and 2007, their rate of accumulation of fixed assets fell by 41%, while their after-tax rate of profit on fixed-asset investment fell by 43%. The only other factor that can influence the rate of accumulation is the share of profits that is re-invested in production; it actually rose a bit (3%). The *entire* decline in the rate of productive capital accumulation is therefore attributable to the decline in the rate of profit (see Kliman and Williams 2014 for further discussion).

Expectations that the future profitability of productive investment will be inadequate also seems to have been a major problem for some time now, as well as a crucial determinant of why recovery from the Great Recession has taken so long and has been so weak. In order to explain the feebleness of the recovery, mainstream economists and economics writers such as Paul Krugman, Martin Wolf, and former U.S. Treasury Secretary Lawrence Summers suggest that the U.S. economy entered a period of ‘secular
stagnation’ some time before the recession, perhaps as early as the mid-1980s—that is, a period in which adequate demand is no longer sustainable unless real (i.e., inflation-adjusted) short-term interest rates are ridiculously low, maybe as low as –2% or –3%. This means that borrowers pay back less than they borrowed, once inflation is taken into account. If the only way to induce companies to undertake sufficient investment is to provide them with money that they don’t have to pay back, the expected rate of profit on new investments must be terribly low indeed! (See Kliman 2014a for further discussion.)

I am not ‘proclaiming that it is all a consequence of some hidden tendency for the rate of profit to fall’, as Harvey puts it. That would be wrong for two reasons. First, all manner of intermediate links and complicating factors have also been at work. (The Great Recession has also weakened businesses’ confidence in the future, to take just one example.) Second, the tendency for the rate of profit to fall is not ‘hidden’. As Hegel said, essence must appear, or shine forth, in the observable world. I think it has done so.


References

  ________. 2014. Crisis Theory and the Falling Rate of Profit.
Notes

1 The data used to construct Figure 1 come from the U.S. Bureau of Economic Analysis: National Income and Products Accounts Table 1.14, lines 1, 4, 7, 9, 10, and 12; Fixed Asset Table 6.3, line 2; and Fixed Asset Table 6.6, line 2. Net operating surplus and after-tax profit are measures of profit. The denominator of both rates is accumulated investment in fixed assets, net of depreciation. Depreciation is valued at historical cost.

2 I shall limit these remarks to a discussion of my own analyses, since I am less knowledgeable about others’

3 As Harvey notes, even the ‘real’ value composition of capital—the one to which Marx refers rather than the nominal one—is not purely an index of labour-saving technical change. In this respect, it differs from the ‘technical’ and ‘organic’ compositions. However, my estimates indicate that U.S. corporations’ real value
composition tracked the technical and organic compositions quite closely. Between 1947 and 2007, the real value composition increased by about 120% while the technical and organic compositions increased by about 160%. Throughout almost all of this period, the relation between the different compositions of capital was even stronger than these numbers suggest. The difference in growth rates is largely due to brief periods (the latter parts of the 1960s and 1990s) in which exceptionally rapid wage growth temporarily depressed the real value composition.

4 The data used to construct Figure 2 come from the U.S. Bureau of Economic Analysis’ ‘Balance of payments and direct investment position data’ tables. The numerator of the rate of profit is ‘Direct Investment Income Without Current-Cost Adjustment’; the denominator is ‘U.S. Direct Investment Position Abroad on a Historical-Cost Basis’. The data are for ‘all countries’.

5 For further analysis of the passage, see pp. 165–67 of Kliman (2012). For discussion of the logical and empirical flaws of the underconsumptionist theory of crisis, see chap. 8 of the book.
Does the rate of profit tend to fall under capitalism? If so, what are the political implications?

New Left Project recently published a two-part critique by Andrew Kliman of leading Marxist geographer David Harvey’s objection to Marx’s theory of the falling rate of profit. Part 1 disputed Harvey's interpretation of Marx; Part 2 argued that US corporations’ long term rate of profit fell after WWII, in accordance with Marx’s law.

Below is David Harvey’s response.

I appreciate Andrew Kliman taking time out to explain his objections to my views on Marx’s theory of the falling rate of profit. He has several detailed objections that counter some but by no means all of my problems with Marx’s theory. Rather than going over each point in turn, I think it would be useful for readers to understand a fundamental difference between the ways Andrew and I conceptualise and frame our understanding of the nature of capital.

In explaining why his view of the falling rate of profit is not monocausal, Kliman resorts to an interesting and revealing metaphor:
If I appeal to the universal law of gravitation in order to explain why apples have a tendency to fall off trees, without mentioning other factors that can make them fall, like the blowing of the wind, or counteracting factors like air resistance, I am not assuming that these other things do not exist. Much less am I constructing a mono-causal model that excludes them, and which is therefore severely restricted in applicability.

It is a clever and beguiling metaphor, all the more powerful since the idea of ‘falling’ is common to apples falling off trees and to the supposed path of profit rates. In both instances, there are countervailing conditions and circumstances that modify the operation of the fundamental law. In Kliman’s view this refutes the charge of mono-causality. We could quibble over semantics of what mono-causality means here. If there were no universal law of gravity, no amount of blowing of the wind would send the apple to the ground and the amount of air-resistance would be irrelevant. These conditionalities (or countervailing forces) are relevant only in relation to the universal law. ‘Universal’, because the laws of gravity can reasonably be assumed to be universal throughout all of nature.

The tendency for profit rates to fall seems to have a similar status in Kliman’s world. It is a universal of capital, derived not from the natural world (as it was in Ricardo’s version of falling profit rates) but from capital’s own nature. Hence Kliman’s conclusion: that no matter what remedies are sought out and applied, capital can never escape the tendency for profit rates to fall. This tendency is simply inherent in what capital is, even as the conditions under which it plays out vary widely.

The competitive search for relative surplus value ultimately undermines and destroys the capacity to produce and realise that surplus value. For Kliman, this is the primary contradiction of capital around which a host of secondary contradictions (e.g. those embedded in the credit system or deriving from insufficient
aggregate demand) cluster. No amount of tinkering with the secondary contradictions (e.g. financial reform or basic income redistributions) can abolish the tendency for profit rates to fall and crises to form. Only a revolutionary politics that addresses this primary contradiction will suffice (even though, as Kliman readily concedes, reforms here and there can improve the lot of particular needy groups in the population and that is not a bad thing).

Reasoning with the help of metaphors is profoundly important to the construction and communication of human understandings. It helps us see the unfamiliar and unacceptable in familiar and acceptable terms and also is suggestive of as-yet undiscovered properties of one system by analogy to the known properties of another.

Darwin, for example, faced with all of the confusions of his data, first used the known properties of the plant and animal breeding practices with which he was familiar to make sense of what was happening on ‘the tangled bank’ of the nature that he was studying. But in nature there is no conscious agent doing the breeding (unless the hand of God is invoked which, unlike contemporary creationists, Darwin was reluctant to do). The insight that allowed everything to fall into place by Darwin’s own account came from the social theory of Thomas Malthus. The blind hand of competition and survival of the fittest substituted for the conscious agent. Being married to the daughter of the pottery maker Josiah Wedgwood, Darwin was also deeply familiar with the importance of the rapid proliferation of divisions of labour and specialisations of function within British industrial capitalism. So these, too, entered into his theory of evolution. ‘It is remarkable’, wrote Marx, an admirer of Darwin, ‘how Darwin recognises among beasts and plants his English society with its divisions of labour, competition, opening up of new markets, inventions and Malthusian “struggle for existence”’. ¹ These social metaphors
underpinned Darwin’s theory of natural evolution. They helped him and us to make sense of his data. Social theorists later returned the compliment by running the same metaphor in the opposite direction, conceptualising capital as wholly natural because it seemed consistent with Darwin’s scientific theory of natural evolution! The coupling of this social Darwinism with the metaphor of the state as a biological entity in need of living space produced a style of geopolitical thinking that had, however, appalling consequences in the 1930s.

Interestingly, the Russian evolutionists, living in a non-capitalist social world that was mainly characterised by the moral economy of the peasantry, could neither understand nor accept Darwin’s resort to the Malthusian metaphor. They emphasised mutual aid as a key property of natural evolution instead. Such a theory was as consistent with the data as the theory of competition but in Britain this idea fell on stony ground, almost certainly for social rather than scientific reasons. But the Russian metaphor also returned to the social world, thanks to the anarchist writings of the evolutionary physical geographer Peter Kropotkin. A wholly natural society, in Kropotkin’s view, was one in which mutual aid dominated. In the anarchist world view, it was capital that was unnatural!

I mention this history not only to illustrate the utility of metaphors and analogies but to highlight also their potential dangers and pitfalls. As is well known in the science studies literature, the metaphors invoked to frame our thinking have all manner of consequences. We also know we cannot do without them.

So what, then, is the appropriate metaphor for understanding capital’s nature? And how might we best conceptualise capital’s laws of motion?
Kliman’s thinking, like that of many economists (both Marxist and non-Marxist), seems to appeal to metaphors drawn from physics. Just as falling apples respond to universal laws of gravity (backed, as Kliman points out, by the second law of thermodynamics), so the downward course of profits is a manifestation of the principal law of motion of capital. But how useful and revealing is this metaphor and in what respects might it mislead?

Marx appealed to a variety of metaphors to understand capital. He occasionally resorted to gravity and Newtonian thinking, but in the first chapter of *Capital* he appeals to chemistry. Value, he says, is congealed in commodities as ‘crystals of this social substance’ we call labour. He then switched to biology: as capital circulates, so it undergoes metamorphoses into the different physical forms of money, commodities, productive activities and the like. Morphogenesis becomes a crucial framing for his thinking. This leads into the metaphor that impresses me most—that of capital as an organic whole, sustained by the internally differentiated circulatory flows of value that absorb from capital’s *milieu* the energies of human labor as well as the raw materials to be found in capital’s social and natural environment. In the introduction to the *Grundrisse*, Marx elaborates on this way of thinking directly:

The conclusion we reach is not that production, distribution, exchange and consumption are identical, but that they all form the members of a totality, distinctions within a unity.... A definite production thus determines a definite consumption, distribution and exchange as well as definite relations between these different moments. Admittedly, however, in its one-sided form, production is itself determined by the other moments. For example if the market, i.e. the sphere of exchange, expands, the production grows in quantity and the divisions between its different branches becomes deeper. A change in distribution changes production, e.g. concentration of capital, different distribution of the population between town and country, etc. Finally, the needs of consumption
determine production. Mutual interaction takes place between the different moments. This is the case with every organic whole.\textsuperscript{5} But what kind of ‘organic whole’ is being envisaged here and with what properties?

Marx, impressed with Darwin, looked to evolutionary biology as his preferred analogy. He does this explicitly in Volume I of\textit{Capital}.\textsuperscript{6} ‘Darwin has directed attention to the history of natural technology, i.e. the formation of the organs of plants and animals, which serve as the instruments of production for sustaining their life. Does not the history of the productive organs of man in society, of organs that are the material basis of every particular organization of society, deserve equal attention?’

The organic whole of which he speaks is not a well-defined and bounded entity like the human body. Capital is more like an evolving ecosystem. It is constituted by what Henri Lefebvre pictured as ‘an ensemble’ or Deleuze and Guattari as an ‘assemblage’ of activities and ‘moments’ in interaction with each other. It is far more amenable to dialectical readings of the sort proposed in Levins and Lewontin’s \textit{Dialectical Biology}. These ever expanding and proliferating activities and ‘moments’ are bound together within capital’s ecosystem by flows of value. The production and expansion of surplus value—accumulation for accumulation’s sake and production for production’s sake—is both the aim and object of capital’s endeavour within the ecosystem it constructs. The continuity of flows of value, Marx makes clear, is a necessary condition for the reproduction of capital. Any blockage threatens a crisis.

This organic metaphor leads to a quite different interpretation and understanding of where crises might come from and how they might form. Just as a human body can fall sick and die for all sorts of different reasons other than sheer old age, so there are multiple
points of stress and potential failure within the organic whole of capital. A failure at one point, moreover, typically engenders a failure elsewhere. Attempts by the capitalist state or capitalist class to deal with stresses at one point may have unintended consequences elsewhere. The crisis tendencies of capital do not get resolved but they can and do get moved around from one stress point to another.⁷

This is why in my critique of the law of falling profits I emphasised Marx’s statement that,

The contradictions existing in bourgeois production are reconciled by a process of adjustment, which, at the same time, however, manifests itself as crises, violent fusion of disconnected factors operating independently of one another yet correlated.⁸

This way of thinking substitutes the teleology of the falling rate of profit with a variety of contingent forces within the organic whole that move one way or another depending on the interplay of multiple but correlated contradictions. The multiple contradictions and crisis tendencies internal to capitalism are perpetually re-created even as they appear in different guises.

The big difference between Andrew and myself, I would suggest, lies in the metaphorical framing we each have of capital’s nature. The chaotic mishmash of possible causes for breakdown and crises that I typically invoke without any necessary directionality of change contrasts with the mechanical certainties of that Newtonian world in which the clock was wound up at the outset through the extractions of absolute surplus value only to gradually be wound down under the competitive impetus to create relative surplus value. As the ratio of capital to labour employed shifts ineluctably in the former’s favour, so the profit rate trends down. To me, this mechanical model appears too deterministic, too unidirectional and too teleological to fit how I see and experience capital evolving as an organic whole.
I am not necessarily right in this and Andrew is not necessarily wrong in conceptualising things the way he does. But I think it is important for readers to realise this key difference in our thinking as to how best to conceptualise capital’s nature. In my version, the organic whole constituted by capital could be laid low by the mechanism pointing towards falling profits that Andrew favours and I certainly did not exclude that possibility, in spite of what he says. But to focus primarily on that is like saying we should focus only on heart attacks as causes of human death. At the end of the day (whenever that is), the organic whole may indeed die from sheer old age or because the heart just stops beating. But, as with the human body, capital can die or get seriously sick for all sorts of other reasons too.

The job of the Marxist diagnostician is to figure out what ails capital this time around: what may threaten its reproduction and its capacity to rejuvenate and how and why its organic qualities might change or even mutate over time (as they plainly have done). New species in the divisions of labor can be introduced or appear by accident as others die out, even as the organic whole flourishes and grows. Large parts of capital’s ecosystem can die out completely, leaving wastelands behind even as other areas flourish.

Eventually the wastelands (like Detroit) may be recolonised by other species of capitalist activity (provided the socialists or anarchists don’t get there first!). Questions of contagion and of uneven geographical development become more prominent in this reading and outcomes much less certain. While it may sound as everything is dissolving into a mass of contingencies in my framing, there are, it usually turns out, some very dominant blockage points that recur again and again. One of my favourites, for example, is to look carefully at how investments in the fixed capital and consumption fund of the built environment both absorb surplus capital and ultimately become the locus of a crash (as
happened in 2008 and as is now threatened in China). This corresponds, as I have pointed out, to Marx’s comment that ‘the cycle of interconnected turnovers embracing a number of years, in which capital is held fast by its fixed constituent part, furnishes a material basis for the periodic crises’.\footnote{9} Why, then, are we not investigating this with the same intensity and tenacity as is devoted to the falling rate of profit?

There is, however, the possibility that both Andrew and I might be right in our metaphorical framings. Prigogine and Stengers, in their brilliant book on ‘Order Out of Chaos’, point out that there is no simple way to get from the physical laws of thermodynamics (which everyone accepts) that depict the inevitable tendency for energy to dissipate, to evolutionary organic theories (which most scientists accept) that depict the increasing concentration and ordering of energies in space and time.\footnote{10} Yes indeed the sun will eventually run out of gas and given the second law of thermodynamics energy will dissipate. But there is nothing to stop the increasing concentration and, in the Earth’s case, storing of energies in one part of the universe for a time so that species as well as whole civilisations can be constructed through increasing order. In the here and now, the second law of thermodynamics means very little to us at the macro-level struggling to reproduce in our little corner of the universe, even as it is a universal feature of the world in which we live (and has lots of localised uses in closed systems, such as in steam engines).

For us it is the evolutionary laws that matter, and they work according to a different logic. Energy gets increasingly centralised and concentrated rather than dissipated. But this can happen for capital only if the continuity of the flows of value is preserved and if the many potential blockages to these flows can be successfully negotiated or overcome. Both conceptions may be right, but they have different domains of application.
So Kliman may well be right in the long run. But my organic metaphor for understanding capital’s nature works far better for understanding what is happening to us in the here and now.

David Harvey teaches at the Graduate Centre of the City University of New York and is the author of, among other books, The Limits to Capital and A Brief History of Neoliberalism.

Top image by Department of Histology, Jęgiellonian University Medical College, via Wikimedia Commons.

References


8 Karl Marx, *Theories of Surplus Value* (London, Lawrence and Wishart, 1972), p.120. My italics.


I wish to begin by thanking David Harvey for taking the time to respond to my counter-critique of his criticisms (Harvey 2014) of Marx's law of the tendential fall in the rate of profit (LTFRP), the theory of capitalist economic crisis rooted in that law, and the relevance of the law and the theory to an understanding of the Great Recession. His response addresses little of what I wrote; in particular, it does not address the textual or the economic evidence I put forward. It also misconstrues what it does address—my analogy about Marx's explanatory procedure—by portraying it as a metaphor for 'capital's nature'. But at least his response is a start, an opening to a discussion that may yet prove fruitful.

To set the stage for what follows, I will briefly recapitulate Harvey's original charge that Marx's LTFRP is mono-causal and my analogy, which responds to that charge. I will then clarify why the analogy is not a metaphor for 'capital's nature'. The remaining sections of this rejoinder then take up Harvey's new version of the mono-causality charge, his strawman characterisation of the LTFRP, his implicit a priori injunction against considering the possibility that the law might be right, and the need for this discussion, if it is to be fruitful, to return to a consideration of the evidence.

**Harvey's mono-causality charge (first version)**

Harvey charged that Marx's law of the tendential fall in the rate of profit (LTFRP), and the theory of capitalist crisis rooted in the law, are mono-causal. This charge is based on Harvey's contention that the law depends crucially on a number of 'draconian assumptions' made by Marx. By virtue of these alleged assumptions, the LTFRP supposedly rules out all potential causes of falling profitability other than labour-saving technological change, and all factors that can keep
the rate of profit from falling by counteracting the effect of technological change.

Yet it is undeniable that Part 3 of the third volume of Capital, entitled ‘The Law of the Tendential Fall in the Rate of Profit’, discusses several counteracting factors as well as additional causes of crisis such as the financial system. Harvey did not dispute this. His charge that the law is mono-causal instead rested upon the structure of Marx’s explanatory procedure, i.e. the order in which the various causal factors appear in Marx’s account. Marx first presented ‘the law as such’ (das Gesetz als solches); only thereafter did he incorporate counteracting factors, and then additional causes of crisis, into his account of the LTFRP.

This way of structuring an explanation is unexceptionable and quite common. Yet Harvey made it seem to be a mono-causal explanation by reducing the LTFRP to ‘the law as such’. The counteracting factors and additional causes of crisis aren’t part of ‘the law as such’; therefore (for Harvey) the LTFRP assumes that they don’t exist and it isn’t a valid law if they do exist. And therefore (for Harvey) the fact that Marx acknowledged the existence of counteracting factors and additional causes and incorporated them into his account does not acquit him of the mono-causality charge. It just means that Marx was exhibiting his ‘vacillation and ambivalence’ about the validity of the LTFRP and that he was no longer discussing it but was instead discussing ‘what happens when the assumptions made in deriving the law are dropped’.

In response, I explained what’s wrong with this way of interpreting Marx’s explanatory procedure. I noted that ‘[t]he text need not be read in this way. And since it need not, it should not; uncharitable reading is not good interpretive practice’. I then provided what I called an ‘analogy to Marx’s procedure’:
No sophisticated methodological discussion is needed to understand what’s wrong with the charge of monocausality. The issue is simple. If I appeal to the universal law of gravitation in order to explain why apples have a tendency to fall off trees, without mentioning other factors that can make them fall, like the blowing of the wind, or counteracting factors, like air resistance, I am not assuming that these other things don’t exist. Much less am I constructing a mono-causal model that excludes them and which is therefore severely restricted in applicability. I am not doing so even if I explain that the law of gravitation follows from Newton’s second law of motion and refrain from introducing other factors into the equation when I show how it follows. If I then go on to talk about air resistance and the blowing of the wind, I am not exhibiting my ambivalence, vacillating, or admitting that the universal law of gravitation operates only in a vacuum, but fails to operate in the real world. [emphasis in original]

A metaphor for ‘capital’s nature’?

Harvey’s (2014) initial contribution to this discussion vigorously criticized Marx’s LTFRP, its place within Marx’s theory of capitalist economic crisis, and its relevance to the Great Recession and the recession’s prolonged aftermath. My counter-critique addressed each of his many criticisms. Harvey’s response to me is devoted exclusively to a discussion of two sentences of my counter-critique—the third and fourth sentences in the passage quoted above—and it seriously misconstrues those two sentences.

According to Harvey, the sentences are a metaphor that Andrew Kliman employed to ‘explain[ ] why his view of the falling rate of profit is not monocausal’ and especially to ‘conceptualise and frame
[his] understanding of the nature of capital’. ‘The big difference between Andrew and myself, I would suggest, lies in the metaphorical framing we each have of capital’s nature’.

It should be clear from the preceding section that there are three crucial errors here. First, my analogy is not about a general, overarching matter like the ‘nature of capital’; it is about one specific phenomenon, namely the tendency of the rate of profit to fall. Second, the analogy is not about *my* view of the falling rate of profit or my understanding of the ‘nature of capital’; it is about *Marx’s* explanatory procedure and Marx’s law of the tendential fall in the rate of profit.[2] Third, the analogy is not about the ‘*nature of capital*’; it is about Marx’s *explanatory procedure*. In other words, it is not ontological (about being), but epistemological (about knowing).

I offered no metaphor, in that passage or elsewhere, to conceptualise or frame my understanding of the ‘nature of capital’, and I have no such metaphor to offer. I have no need for a metaphor to conceptualise my understanding of capital, not least because ‘capital’ is *already* a conceptualisation of the facts, not a brute fact itself. I don’t see how replacing the original conceptualisation (‘value in process’ (Marx 1990, p. 256)) with a metaphorical one would assist my theoretical or empirical research in any way.

I am suspicious of the phrase ‘nature of capital’. I care much more about how and why capitalism functions and malfunctions than I care about its ‘nature’. And I am particularly suspicious of the phrase ‘nature of capital’ when it is used as Harvey uses it, to impute to me the belief that there is some non-trivial sense in which capital and capitalism are like the natural world, or some non-trivial sense in which the tendency of the rate of profit to fall is like the gravitational force. That is not what I believe.
Contrary to what the fourth and fifth paragraphs of Harvey’s response to me suggest, my revolutionary Marxist-Humanist politics is not deduced from a metaphor (‘Hence Kliman’s conclusion’); it is grounded in evidence and theory. I am willing and able to defend my politics, but only after I read some argument that challenges the evidence and theory in which it is grounded—an honest-to-goodness argument, not a comparison of metaphors. Someone’s personal preference for one metaphor rather than another and the subjective experience (‘how I see and experience capital’) underlying that preference cannot be debated; he prefers what he prefers and experiences what he experiences, and that’s that. Whether the politics associated with the metaphor and the subjective experience is justified, in light of the actual facts, is another matter. When I am given an argument that aims to provide such justification, I will be happy to discuss it.

I noted above that my apples-falling-from-trees analogy is not about the ‘nature of capital’ but about Marx’s explanatory procedure. This may seem to be too neat a division. Doesn’t the kind of explanation one provides depend strongly on the specific ‘nature’ of the phenomena one is explaining? Thus, doesn’t my analogy imply that I am—like it or not—equating the LTFRP and the gravitational force? No, not at all. There is no necessary connection between the ‘nature’ of a phenomenon and how one explains the phenomenon. After all, it is possible to provide a sober analysis of drunkenness.[3]

My apples-falling-from-trees analogy does not compare capitalism to physical reality. It illustrates how a multi-causal explanation that appeals to a general principle or ‘law of a tendency’ works, whatever the subject matter may be.

If I appeal to

- the universal law of gravitation in order to explain why apples have a tendency to fall off trees, without mentioning other
factors that can make them fall, like the blowing of the wind, or counteracting factors, like air resistance; or

- the principle that studying enhances knowledge in order to explain why students who study hard have a tendency to get good grades, without mentioning other factors that can improve grades, like sleeping with the professor, or counteracting factors, like stupidity; or

- the theory of natural selection in order to explain why giraffes have a tendency to be long-necked, without mentioning other factors that can produce long-necked giraffes, like a natural disaster that may have killed off short-necked giraffes, or counteracting factors, like mutations that produce relatively short-necked offspring; or

- the principle that African-Americans face labour-market discrimination in order to explain why they have a tendency to suffer from disproportionately frequent unemployment, without mentioning other factors that can increase the frequency of unemployment, like geographical mismatches between job seekers and job vacancies, or counteracting factors, like affirmative-action policy; or

- the law of the tendential fall in the rate of profit in order to explain why the rate of profit has a tendency to fall, without mentioning other factors that can make it fall, like an increase in wages, or counteracting factors, like the cheapening of means of production; ...

I am not assuming that the additional causal factors and counteracting factors don’t exist. Much less am I constructing a mono-causal model that excludes them and which is therefore severely restricted in applicability. If I then go on to talk about the additional causal factors and the counteracting factors, I am not exhibiting my ambivalence, vacillating, or admitting that the general
explanatory principles to which I appealed fail to operate in the real world.

Consider the first four bullet points. Are they metaphors I have employed to frame my understanding of the ‘nature’ of capital? Do I think there is something non-trivial that falling apples, good grades, long-necked giraffes, disproportionately frequent unemployment, and falling profitability all have in common? Do I think there is something non-trivial that the universal law of gravitation, the study-knowledge relation, natural selection, labour-market discrimination, and the LTFRP all have in common? Hardly. Each of the phenomena has a very different ‘nature’ from the others; each general explanatory principle is very different from the others. Nonetheless, the five explanations have the same basic structure, and among the important things they have in common is the fact that none of them is mono-causal.

**Harvey’s mono-causality charge (new version)**

Yet Harvey continues to ‘quibble’ over this conclusion:

We could quibble over semantics of what mono-causality means here. If there were no universal law of gravity, no amount of blowing of the wind would send the apple to the ground and the amount of air-resistance would be irrelevant. These conditionalities (or countervailing forces) are relevant only in relation to the universal law.

The normal meaning of *mono-causal* is ‘having a single cause’, and what Harvey (2014) alleged was indeed that ‘many Marxist economists like to assert’ a ‘single causal theory of crisis formation’ (my emphasis). In this analogy, however, the causes of the apple’s movement include not only gravitation, but also the blowing of the wind and air resistance. There are three causal factors here, not one.
The analogy therefore cannot properly be read as exemplifying Harvey’s charge that Marx’s LTFRP and the crisis theory based on it are ‘single causal’.

He is now using the term *mono-causal* in a novel way. His new implicit definition of *mono-causal explanation* is ‘an explanation in which there is a cause to which none of the other causes are wholly unrelated’. As I noted in Part 2 of my counter-critique,

I suspect the talk of multi-causality is masking Harvey’s desire for an apousa-causal crisis theory [‘one in which the LTFRP plays no role at all (*apousa* is Greek for “absent”)’]. He is clearly not happy with the specific multi-causal theory of crisis that emerges, when all is said and done, from volume 3 of *Capital*—a theory in which the LTFRP remains intact and other determinants such as the financial system are *linked* to it and *mediate* the way in which it appears. [emphases in original]

I have no objection to Harvey’s re-definition of *mono-causal*, as long as he makes clear that he isn’t using the term in the normal way. But if he is decrying explanations of social and economic phenomena that are mono-causal *in his novel sense*, he is decrying the unavoidable. If there were no carbon, there would be no organic life, and thus no human beings, no human activity, and no social or economic phenomena. All such phenomena ‘are relevant only in relation to’ carbon; they can occur only because carbon is present on earth.

Objecting to my statement that he is campaigning for an apousa-causal crisis theory in which the LTFRP plays no role at all, Harvey writes, ‘the organic whole constituted by capital could be laid low by the mechanism pointing towards falling profits that Andrew favours and I certainly did not exclude that possibility, in spite of what he says’. But I never said that he denies that there might be
some *exceptional case* in which labour-saving technological change is a cause of falling profitability and the fall in profitability is a cause of crisis. I said and say again that he is trying to exclude from consideration the possibility that Marx’s law of the tendential fall in the rate of profit is a genuine law—that is, a general principle that successfully explains why the rate of profit has a *tendency* to fall. He is also trying to exclude from consideration the possibility that the theory of capitalist economic crisis rooted in the law might successfully explain ‘what is happening to us in the here and now’ rather than what will happen in the distant future when ‘the sun ... eventually run[s] out of gas’.\[4\] The concluding words of his rejoinder reject these possibilities explicitly: ‘my organic metaphor for understanding capital’s nature *works far better* for understanding what is happening to us in the here and now’ (emphasis added).

**A strawman LTFRP**

Although Harvey’s claim that my apples-falling-from-trees analogy is a metaphor for ‘capital’s nature’ misunderstands what I wrote, it does have the merit of not being made up out of whole cloth. The same cannot be said for his statement that I frame capital’s nature in terms of

the mechanical certainties of that Newtonian world in which the clock was wound up at the outset through the extractions of absolute surplus value only to gradually be wound down under the competitive impetus to create relative surplus value. As the ratio of capital to labour employed shifts ineluctably in the former’s favour, so the profit rate trends down. To me, this mechanical model appears too deterministic, too unidirectional and too teleological to fit how I see and experience capital evolving as an organic whole.
Note that this statement, like his earlier statement that ‘Andrew Kliman has been most strident in his claim that the crisis had nothing to do with financialisation’, is not accompanied by any supporting evidence or citation. And it is equally false. My position on this matter, which I have made perfectly clear, is the opposite of the position attributed to me:

The destruction of capital value through crises is a recurrent phenomenon. The restoration of profitability that this destruction brings about is therefore a recurrent phenomenon as well. Because of this, the rate of profit does not have a determinate secular trend throughout the entire history of capitalism, and efforts to deduce or predict such a trend are futile. [Kliman 2012, p. 25]

The following is a much better example of the use of mechanical metaphors drawn from Newtonian physics to frame a deterministic outlook:

In the same way that the laws of fluid dynamics are invariant in every river in the world, so the laws of capital circulation are consistent from one supermarket to another, from one labour market to another, from one commodity production system to another, from one country to another and from one household to another.

However, I cannot take credit for this deterministic metaphor.[5] It appears on page 343 of The Condition of Postmodernity (Harvey 1990).

Harvey seems quite reluctant to let go of his strawman versions of the LTFRP and the crisis theory rooted in it. In addition to attributing to me a mechanical conception in which a single driving force ineluctably forces down the rate of profit, he abruptly reverts back to
his charge that the LTFRP and the associated crisis theory are mono-causal in the standard ‘single cause’ sense. ‘[T]o focus primarily on [the mechanism pointing towards falling profits] is like saying we should focus only on heart attacks as causes of human death’ (my emphases). No, it’s not like that; primarily does not mean only. In any case, I do not focus primarily on the fall in the rate of profit as a cause of crisis (need I repeat the twelve causes of the financial crisis of 2007–8 that I discussed in my book on the Great Recession and listed in Part 1 of my counter-critique?); much less do I tell others they should do so.

Whether a particular potential cause has actually been the primary one, or a secondary one, or inoperative is something that cannot be known in advance. That’s why we must consider the empirical evidence (which is what Harvey and I were doing before he diverted the discussion onto his metaphor versus my (nonexistent) metaphor). As I noted in my book,

Prior to analysing the data, I had no prior belief that actual rates of profit had failed to rebound since the early 1980s…. If I can now say that a persistent decline in US corporations’ profitability is a significant underlying cause of the Great Recession, and that Marx’s explanation of why the rate of profit tends to decline fits the facts remarkably well, it is because I have crunched and analysed the numbers. I could not have said these things a few years ago. [Kliman 2012, pp. 8-9]

**Do not block the way of inquiry**

Harvey’s metaphor about heart attacks is troubling because it runs afoul of the ‘first rule of reason’ put forward by Charles Sanders Peirce: ‘Do not block the way of inquiry’. He argued that
there is no positive sin against logic in *trying* any theory which may come into our heads, so long as it is adopted in such a sense as to permit the investigation to go on unimpeded and undiscouraged. On the other hand, to set up a philosophy which barricades the road of further advance toward the truth is the one unpardonable offence in reasoning. [emphasis in original]

The heart-attack metaphor is an implicit *a priori* injunction against considering even the possibility that the tendency of the rate of profit to fall as a result of labour-saving technological change is the primary cause of crisis. It is *a priori* because this possibility is ruled out in advance, before considering the evidence and without regard to the evidence, merely because ‘the metaphor that impresses me most’, the one that best ‘fit[s] how I see and experience capital’, is that of an allegedly ‘organic whole’ that is nonetheless made up of ‘disconnected factors operating independently of one another’. [6]

Metaphors are an important part of the process of inquiry—when they *disclose additional* possibilities that have not been recognized before. But when they are used to *rule out* possibilities in advance, they block the way of inquiry, impede and discourage investigation, and ‘barricade[ ] the road of further advance toward the truth’.

Harvey’s metaphor about heart attacks is ‘clever and beguiling’, partly because we already have sufficient evidence to reject—*a posteriori*—the possibility that heart attacks are the only cause of human death, and partly because of his illicit substitution of *primarily* with *only*. Let us therefore reinstate the term *primary* and consider other cases. Should one have enjoined others to rule out, in advance of the evidence, the possibility that smoking is the *primary cause of lung cancer*, or that the burning of fossil fuels has been the *primary cause of climate change*, or that financial problems are the *primary cause of*
US college students’ failure to graduate? If the answer is ‘no’, then why enjoin them to rule out, in advance of the evidence, the hypothesis that the crises of capitalism may in fact have a primary cause?

I understand that some people are incurious enough not to care whether a cause has been primary or not; and some may be so incurious as to not care about the causes of the events and phenomena they experience. I have no desire to alter their preferences. I do ask that they not let their preferences block the way of inquiries that others of us wish to engage in.

Back to the evidence?

Let me stress again, however, that I am not suggesting that capitalism’s crises have a single primary cause, or even that the ‘here and now’ crisis—the Great Recession and its aftermath—had a single primary cause. What I argue is much less audacious: that the long-term fall in US corporations’ rate of profit was ‘a significant underlying cause of the Great Recession, and that Marx’s explanation of why the rate of profit tends to decline fits the facts remarkably well’ in this particular case. Nor is the issue here whether it is proper to rule out these hypotheses in advance of the evidence. I have already put forward my evidence. I have shown that my analyses and interpretations of the evidence anticipated and dealt with Harvey’s several objections to falling-rate-of-profit evidence that others had earlier put forward. And I have shown that he has provided no legitimate counter-evidence: his labour-force growth statistic is just not evidence that the rate of profit rose or that the LTFRP has been inoperative.

Thus the issue here is whether it is proper to ignore the (legitimate) evidence, and dismiss my inferences from the evidence as somehow irrelevant to ‘what is happening to us in the here and now’, simply because my (alleged but nonexistent) ‘metaphorical framing’ isn’t
Metaphorically Correct. Lest I be accused of misrepresenting Harvey here, lest it be said that he has simply compared and contrasted different metaphorical framings because doing so is ‘useful for readers’, I reiterate that he (1) concludes his response to me by stating categorically that his ‘organic metaphor for understanding capital’s nature works far better for understanding what is happening to us in the here and now’, and (2) arrives at this conclusion without regard to the empirical evidence. He does not challenge my evidence nor put forward any legitimate empirical counter-evidence. He instead appeals to what ‘impresses’ him and ‘how I see and experience capital’ to decide what ‘works far better’.

This way of deciding matters is certainly superior to careful consideration of hard evidence if one’s goal is to confirm what one already believes, or to give an ex post justification for conclusions that are actually based on political expediency. But it is indescribably inferior if one’s goal is to understand what is actually ‘happening to us in the here and now’. How people ‘see and experience’ what is happening is frequently different from what is actually happening and, even more frequently, inadequate as a method of comprehending what is happening.[7] Careful reasoning and consideration of hard evidence are needed before the accuracy and adequacy of what is ‘see[n] and experience[d]’ can be confirmed or disconfirmed.

When subjective experience is strongly influenced by misunderstandings, it is an especially faulty guide to understanding what is happening. Harvey (2014) contends that growing employment is, in and of itself, important evidence that the rate of profit has risen and that the LTFRP has not been operative. He argues that Marx’s law would hold true only if commodities’ prices equalled their values. He questions the legitimacy of contemporary falling-rate-of-profit evidence, apparently unaware that his many objections had already been anticipated and dealt with. It is hardly
surprising that Marx’s theory of capitalist crisis will be experienced as inapplicable to the ‘here and now’ when subjective experience is coloured by such misunderstandings.

I think it is terribly important, politically and ethically, to combat and try to root out dogmatism. One type of dogmatism is stubborn insistence that one’s opponent is wrong. Harvey is certainly not guilty of that. He writes, ‘There is, however, the possibility that both Andrew and I might be right in our metaphorical framings’. Although this statement wrongly attributes to me a metaphor I didn’t put forward and don’t endorse, it is at least admirably non-dogmatic. Yet there is a second type of dogmatism as well: stubborn refusal to modify one’s beliefs in the light of hard evidence and logical considerations. ‘You have your opinion and I have mine’ and ‘You’re not coming from where I’m coming from’ may seem to be the quintessence of open-mindedness and mutual respect, but if these things are said in order to dismiss evidence and logic, they are nothing more than dogmatic refusal to entertain the possibility that one might be wrong.[8]

I am not suggesting that Harvey is guilty of the second type of dogmatism. He has not refused to reconsider what he thinks in light of the empirical evidence. He simply has not yet engaged with the evidence. He still has the opportunity to do so, and I hope he will avail himself of it. Doing so may not be ‘useful for readers’, but we intellectuals have other responsibilities as well. One of them is to separate the wheat from the chaff:[9] that which is empirically correct and logically sound from that which is not. This responsibility is crucial, because many if not most readers lack the knowledge, and the time required to acquire sufficient knowledge, to properly evaluate the evidence and arguments on their own. They need some help. It is our responsibility to help them.
Readers’ lack of time and knowledge is a main reason that some of them may find comparison of metaphors to be more ‘useful’ than evidence and arguments they are unable to evaluate properly. Some of them may be heartened by the ‘useful’ suggestion that they may instead decide what ‘works far better’ by appealing to something they do know—namely, which metaphors they like and which they dislike. But this suggestion is politically unwise. If we want to change the world, not just replace one set of personifications of capital who happen to be in charge of the world with different personifications of capital, we can do so effectively only if we have real knowledge—evidence- and argument-based knowledge—of how the world actually functions and malfunctions. The ‘useful’ suggestion is also unethical. As W. K. Clifford argued convincingly in ‘The Ethics of Belief’, ‘it is wrong always, everywhere, and for anyone, to believe anything upon insufficient evidence’. A person who doesn’t have the time needed to become a competent judge of the issues should also ‘have no time to believe’.

References


_________. 2014. ‘Crisis Theory and the Falling Rate of Profit’.


As I noted in Part 1 of this counter-critique, Marx’s law says that the rate of profit tends to fall because of labour-saving technological progress under capitalism. By lowering costs of production, technological innovations tend to keep products’ prices from rising, and this makes it difficult for companies’ profits to increase as rapidly as the amount of capital they invested to produce their products.

Harvey’s fundamental disagreements here are with Marx. His initial contribution (Harvey 2014) criticised Marx frequently and at great length, while I was mentioned once. In contrast, Harvey’s response almost makes Marx disappear—he is mentioned only a few times, mostly in connection with his metaphors, but not once with regard to the LTFRP and the crisis theory based on it—and it portrays the dispute between Harvey and Marx as a dispute between Harvey and Kliman. What accounts for the sudden change? And what accounts for the fact that Harvey has abruptly shifted from discussing evidence to discussing metaphors? Could it be that it is one thing to concede that Kliman’s supposed ‘metaphorical framings’ might be right, but quite another to concede that Marx’s law of the tendential fall in the rate of profit might be right, and relevant for understanding why the Great Recession erupted?
Apparently, the phrase ‘sober analysis of drunkenness’ was coined by Tadeusz Boy-Żeleński, who used it to characterise Michel de Montaigne’s essay ‘Of Drunkenness’.

Harvey seems to have borrowed this quip from Rosa Luxemburg, who wrote, ‘there is still some time to pass before capitalism collapses because of the falling rate of profit, roughly until the sun burns out’. There seems to be no evidence that Marx held that capitalism must, or will, collapse because of the falling rate of profit. On the contrary, he argued that ‘[c]ounteracting influences [are] at work, checking and cancelling the effect of the general law [of the tendential fall in the rate of profit]’, that the LTFRP ‘has constantly to be overcome by way of crises’, and that ‘[p]ermanent crises do not exist’ (Marx 1991, pp. 339, 367; Marx 1989, p. 128, starred note).

It is true that the Navier-Stokes equations on which modern fluid mechanics is based suggest that fluid flow may be ‘chaotic’. However, chaotic has a technical meaning here that differs from the everyday meaning. The behavior of variables in a chaotic dynamical system, though unpredictable in practice, is completely deterministic.

The only organic entities that fit this description are the famous gavagai, the ‘undetached parts of rabbits’ that W. V. O. Quine’s (1960, p. 52) imaginary ‘native’ perceives when the rest of us perceive whole rabbits. The ‘disconnected factors operating independently’ phrase appears in Harvey (2014) as well as in his recent response. He is quoting Marx (1971, p. 120); but Marx used the phrase to characterise economic crises as a violent fusion of disconnected and independently operating factors, while Harvey uses it to suggest that the causes of crises are disconnected from, and operate independently of, one another.
‘[A]ll science would be superfluous if the form of appearance of things directly coincided with their essence’ (Marx 1991, p. 956); but they don’t coincide, so ‘science’ is necessary.

I am well aware of incommensurability, the theory-ladenness of observation, and the like. None of these problems are relevant to what I am discussing at this point. They are about cases in which evidence and reason are insufficient to settle disputes, not cases in which they are sufficient but one side of the dispute dogmatically refuses to accept their consequences.

I hasten to clarify that this is not a metaphor that compares ‘capital’s nature’ to agricultural production.
Monomania and crisis theory – a reply to David Harvey

Michael Roberts

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.

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 “\textit{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, “\textit{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, “\textit{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

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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.


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.\textsuperscript{14}

\textit{Capital} starts with the ‘general’, or should we say with the ‘abstract’, and proceeds step by step to the concrete\textsuperscript{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 “\textit{derived under certain assumptions}”, which later on he refers to as “\textit{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.

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14 See my paper Tendencies, triggers and tulips, Amsterdam,
2014;
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.\textsuperscript{16} Carchedi and I have answered this charge of indeterminacy of the LTRPF\textsuperscript{17} already and so have others.\textsuperscript{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.\textsuperscript{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. 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.

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

17 Roberts M.(2013), Michael Roberts and Guglielmo Carchedi on Heinrich
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).

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

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. 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. 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.

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.  

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.
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.

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\textsuperscript{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\textsuperscript{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\textsuperscript{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. 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
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/mrobpof.pdf


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.”

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.\(^3^4\)

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

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\textsuperscript{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.\textsuperscript{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\textsuperscript{38}. And so has Mick Brooks.\textsuperscript{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 explanation for the onset of capitalist crisis.

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).


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.”

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 description of a realisation crisis, or slump, not an explanation 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 production that causes recurrent and cyclical crises (as Marx claimed), there are only problems with circulation.

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
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](http://gesd.free.fr/carch12.pdf)

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
triggered 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 trigger for world recession, not the
fundamental cause.

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.
Crisis Theory, the Law of the Tendency of the Profit Rate to Fall, and Marx’s Studies in the 1870s | Michael Heinrich

by Michael Heinrich topics: Economic Theory, Marxism, Political Economy, Stagnation


The development of crisis theory within the Marxian tradition has been central to much of our work in the last several years. The view that the various fragmentary references to crisis theory in the three volumes of *Capital* constitute a fully developed coherent structure, which only requires diligent exegesis, is a view that has never seemed sensible to us.

Recent research into the evolution of Marx’s manuscripts in connection with the production of the *Marx-Engels-Gesamtausgabe* (*MEGA*), the historical-critical edition of the complete writings of Karl Marx and Friedrich Engels, has confirmed our understanding in a very exciting way. It is now clear that Marx never ceased to develop his thinking on the phenomena of crises in capitalism, and never ceased to discard earlier formulations; for example, at the end of his life he was focused on questions of credit and crisis. *Monthly Review* rarely presents its readers with discussions of economic theory at a relatively high degree of abstraction; this, however, is such an occasion. We trust that the
author’s exemplary clarity will permit ready access to readers with any degree of interest in Marx’s theory; for those who wish to become familiar with the conceptual outline of Marx’s work, we cannot do better than to recommend the author’s *An Introduction to the Three Volumes of Karl Marx’s Capital* (Monthly Review Press, 2012). —The Editors

In Marx’s work, no final presentation of his theory of crisis can be found. Instead, there are various approaches to explain crises. In the twentieth century, the starting point for Marxist debates on crisis theory was the third volume of *Capital*, the manuscript of which was written in 1864–1865. Later, attention was directed towards the theoretical considerations on crisis in the *Theories of Surplus-Value*, written in the period between 1861 and 1863. Finally, the *Grundrisse* of 1857–1858 also came into view, which today plays a central role in the understanding of Marx’s crisis theory for numerous authors. Thus, starting with *Capital*, the debate gradually shifted its attention to earlier texts. With the *Marx Engels Gesamtausgabe* (*MEGA*), all of the economic texts written by Marx between the late 1860s and the late 1870s are now available. Along with his letters, these texts allow for an insight into the development of Marx’s theoretical considerations on crisis after 1865.

Hope, Experience, and the Changing Analytical Framework of Marx’s Theory

In the first half of the nineteenth century, it became clear that periodic economic crises were an inevitable component of modern capitalism. In the *Communist Manifesto*, they were regarded as a threat to the economic existence of bourgeois society. Crises first took on a special political meaning for Marx in 1850 when he attempted a closer analysis of the failed revolutions of 1848–1849. He now regarded the crisis of 1847–1848 as the decisive process which led to revolution, from which he drew the conclusion: “A new revolution is possible only in consequence of a new crisis. It is, however, just as certain as this crisis.”
In the following years, Marx eagerly awaited a new deep crisis. It finally came in 1857–1858: all capitalist centers experienced a crisis. Whereas Marx acutely observed the crisis and analyzed it in numerous articles for the *New York Tribune*, he also attempted to work out his critique of political economy, which he had planned for years.² The result was the untitled manuscript which is known today as the *Grundrisse*.

In the *Grundrisse*, the theory of crisis bears the stamp of the expected “deluge” that Marx wrote about in his letters.³ In an early draft for the structure of the manuscript, crises come at the end of the presentation, after capital, the world market, and the state, where Marx fashions a direct connection to the end of capitalism: “Crises. Dissolution of the mode of production and form of society based upon exchange value.”⁴

In the so-called “Fragment on Machines,” one finds an outline of a theory of capitalist collapse. With the increasing application of science and technology in the capitalist production process, “the immediate labour performed by man himself” is no longer important, but rather “the appropriation of his own general productive power,” which leads Marx to a sweeping conclusion: “As soon as labour in its immediate form has ceased to be the great source of wealth, labour time ceases and must cease to be its measure, and therefore exchange value [must cease to be the measure] of use value. The *surplus labour of the masses* has ceased to be the condition for the development of general wealth, just as the *non-labour* of the few has ceased to be the condition for the development of the general powers of the human head. As a result, production based upon exchange value collapses.”⁵

These lines have often been quoted, but without regard for how insufficiently secure the categorical foundations of the *Grundrisse* are. The distinction between concrete and abstract labor, which Marx refers to in *Capital* as “crucial to an understanding of political economy,” is not at all present in
And in Capital, “labor in the immediate form” is also not the source of wealth. The sources of material wealth are concrete, useful labor and nature. The social substance of wealth or value in capitalism is abstract labor, whereby it does not matter whether this abstract labor can be traced back to labor-power expended in the process of production, or to the transfer of value of used means of production. If abstract labor remains the substance of value, then it is not clear why labor time can no longer be its intrinsic measure, and it’s not clear why “production based on exchange value” should necessarily collapse. When, for example, Hardt and Negri argue that labor is no longer the measure of value, they do not really refer to the value theory of Capital but to the unclear statements of the Grundrisse.

Marx indirectly addresses this set of problems from the Grundrisse in the first volume of Capital, when dealing with the concept of relative surplus-value: there Marx makes fun of the notion that the determination of value by labor is called into question by the fact that in capitalist production, the point is to reduce the labor time required for the production of an individual commodity—and that was the argument upon which the theory of collapse in the Grundrisse was based.

The crisis of 1857–1858 was over quickly. It did not lead, economically or politically, to the shaking up of conditions that Marx had hoped for: the capitalist economy emerged strengthened from the crisis, and revolutionary movements did not arise anywhere. This experience was integrated into Marx’s theoretical development: after 1857–1858, Marx no longer argued in terms of a theory of final economic collapse, and he no longer made out a direct connection between crisis and revolution.

Marx’s hopes in the crisis were disappointed, but at least he had begun to formulate his critique of political economy. This project would grip him until the end of his life, and the theory of crisis would play an important role within it. Although Marx had in no
way finished with the process of research, he made numerous attempts at an adequate presentation. Starting in 1857, three comprehensive economic manuscripts emerged: after the *Grundrisse* of 1857–1858, the *Manuscript of 1861–1863* (which contains the *Theories of Surplus-Value*) and the *Manuscript of 1863–1865* (which among other things contains the manuscript used by Engels as the foundation for his edition of the third volume of *Capital*). In the *MEGA*, where these manuscripts have been published in their entirety, they are referred to as “the three drafts of *Capital.*” This widely used description is problematic: it suggests a seamless continuity and conceals the shifts in the theoretical framework of Marx’s analysis.

One result of the *Grundrisse* was the six-book plan announced in the preface to *A Contribution to the Critique of Political Economy* (capital, landed property, wage-labor, the State, foreign trade, the world market).9 Fundamental for the first book is the distinction between “capital in general” and the “competition of many capitals”: everything that merely manifests at the level of appearance in competition was to be developed in the section on “capital in general,” abstracted however from any observation of individual capitals or a particular capital.10

In the *Manuscript of 1861–1863*, where Marx attempts to implement this concept, the theory of crisis is dealt with under new considerations. Crises are no longer an indication of the dissolution of the capitalist mode of production, but are rather the constant and completely normal accompaniment of this mode of production, which provide a “forcible adjustment of all the contradictions.” Correspondingly, the theory of crisis no longer constitutes the endpoint of the presentation. Rather, individual moments of crisis are to be dealt with at different levels of the presentation. Marx makes the programmatic declaration:

The world trade crises must be regarded as the real concentration and forcible adjustment of all the contradictions of bourgeois
economy. The individual factors, which are condensed in these crises, must therefore emerge and must be described in each sphere of the bourgeois economy and the further we advance in our examination of the latter, the more aspects of this conflict must be traced on the one hand, and on the other hand it must be shown that its more abstract forms are recurring and are contained in the more concrete forms.  

However, Marx had a problem determining which moments of crisis are to be developed at which level. He still had not found the proper structure of the presentation. In the course of his work on the Manuscript of 1861–1863, Marx had to accept two dramatic results: (1) the six-book plan was too comprehensive, he would not be able to carry it out completely. Marx announced that he would restrict himself to the book on “Capital,” eventually he intended to get around to writing the book on the state, but all the rest had to be done by others on the basis of the foundation that he would provide.12 (2) It would soon become clear, however, that the strict separation between “capital in general” and “competition” could no longer be maintained.13 For the book on capital that Marx now planned, the concept of “capital in general” no longer played a role. Whereas from 1857 to 1863 in the manuscripts as well as in Marx’s letters, Marx often referred to “capital in general” when discussing the structure of the planned work, this term no longer showed up anywhere after the summer of 1863.

So we are not dealing with three drafts for the final version of Capital, but rather with two different projects: the plan followed between 1857 and 1863 for a six-book Critique of Political Economy, and after 1863, the four-book work on Capital (three “theoretical” volumes and one on the history of theory). The Grundrisse and the Manuscript of 1861–1863 are the two drafts for the book on capital from the original six-book Critique of Political Economy, whereas the Manuscript of 1863–1865 is the first draft for the three theoretical volumes of the four-book Capital. If we consider the Manuscript of 1863–1865, then it becomes clear not
only that the concept of “capital in general” is missing, but also that
the structure of presentation does not anymore correspond to the
opposition between capital in general and competition. Instead, a
central role is played by the relationship between *individual
capital* and the *total social capital*, which is dealt with at the
different levels of abstraction of the process of production, the
process of circulation, and the process of capitalist production as a
whole. The strict separation of the presentation of capital, wage-
labor, and landed property could also no longer be maintained: in the
newly conceptualized *Capital*, one finds theoretically fundamental
sections of the previously planned books on landed property and
wage-labor. All that remains are the special studies mentioned in the
text.14 So overall, *Capital* corresponds to the material of the first
three books of the earlier six-book plan, but within an altered
theoretical framework. The planned presentation of the history of
theory had also been altered: a history of economic theory in its
entirety replaces the history of individual categories intended for the
old book on capital. Here as well, the originally planned separation
cannot be maintained.

The *first draft* for this new *Capital* is the *Manuscript of 1863–1865*.
The first printing of the first volume of *Capital* from 1866–1867, the
“Manuscript II” for book II of *Capital* from 1868–1870,15 as well as
the smaller manuscripts for book II and book III created in the same
time period16: all of these constitute a *second draft* (1866–1871)
of *Capital*. The manuscripts written between the end of 1871 and
1881 including the second German edition of the first volume
of *Capital* from 1872–1873 (which exhibits considerable changes
from the first edition) and the French edition of 1872–1875 (which
contains further changes) constitute a third draft of *Capital*. So
instead of three drafts and the final *Capital*, we have two different
projects with a total of five drafts.17

The Evolution of Marx’s Economic Writings Since 1857
I. The *Critique of Political Economy*, in Six Books (1857–1863)

First Draft  *Grundrisse* 1857–1858

Second Draft  *A Contribution to the Critique of Political Economy*, 1859

*Manuscript of 1861–1863*

II. *Capital*, in Four Books (1863–1881)

First Draft  *Manuscript of 1863–1865*


Manuscript II for Book II (1868–1870)

Manuscripts for Books II and III (1867–1871)


“The Law of the Tendency of the Rate of Profit to Fall”—and its Failure (1865)

The most extensive considerations of crisis in the Capital manuscripts can be found in connection with the presentation of the “Law of the tendency of the rate of profit to fall” in the manuscripts for the third book from 1864–1865. Since this “law” plays such an important role in many debates on crisis theory, it will be discussed before coming to the actual theory of crisis.

The idea that the social average rate of profit declines over the long term was considered an empirically confirmed fact since the eighteenth century. Adam Smith and David Ricardo both attempted to demonstrate that the observed fall in the rate of profit was not simply a temporary phenomenon, but rather a result of the inner laws of the development of capitalism. Adam Smith attempted to explain the fall in the rate of profit as a result of competition: in a country with abundant capital, the competition between owners of capital would exert downward pressure on profit.18 This argument is not very plausible. An individual capitalist, in order to improve his competitive position, can lower the price of his commodity and be satisfied with a smaller profit. However, if the majority of capitalists act in this way, then the market price of numerous commodities would decline and therefore also the costs for each enterprise, which in turn would increase profit.

David Ricardo had already criticized Smith’s arguments for the fall in the rate of profit.19 Ricardo proceeded from the assumption that, disregarding a few exceptions, the general rate of profit could only fall if wages increased. Since an increase in the size of the
population necessitates more means of subsistence, Ricardo assumed that farmland of increasingly worse quality would have to be cultivated, which would lead to a rise in the price of grain. Since wages must cover the costs of reproduction of the labor force, wages would rise with the rise in the price of means of subsistence, which would cause a decrease in profits. Capitalists would not profit from the rising price of grain: on the worst land, production prices are high; on better land, the costs of production thus saved would flow as ground rent to landowners.20

Marx opposed this with the argument that even in agriculture increases in productivity are possible, so that the price of grain can fall as well as rise. The possibility of agricultural increases in productivity was not so readily apparent to Ricardo as to Marx: the latter was a contemporary of Justus von Liebig, whose discoveries in the field of chemistry revolutionized agricultural production.21 Marx was not the first to assert a long-term fall in the rate of profit as a result of the inner laws of capitalism. However, he did claim to be the first to have discovered a coherent explanation for this law.22

At the end of the manuscript for the third book, Marx characterizes the object of his presentation as “the internal organization of the capitalist mode of production, its ideal average, as it were.”23 With regard to the presentation of this “ideal average,” particular, temporary moments should be disregarded, in favor only of that which is typical of a developed capitalism. In the preface to the first volume of Capital written two years later, Marx also emphasizes that his intent is not the analysis of a single country or a particular epoch of capitalist development, but rather the “laws themselves” that form the basis of this development.24 Accordingly, with regard to his arguments for the law of the rate of profit, Marx does not assume any particular form of market or conditions of competition, but rather solely the form of development of the forces of production typical of capitalism, the increasing deployment of machinery. If the law he derives at this level of abstraction is correct, then it must be valid for all developed capitalist economies.
Marx discusses the law of the rate of profit in two steps: first, he illustrates why there is a tendential fall in the rate of profit at all. Subsequently, he discusses a series of factors that counteract this tendency and which even transform it into a temporary rise in the rate of profit, so that the fall in the rate of profit only exists as a “tendency.” Since these counteracting factors are more-or-less prominent in individual countries at different times, different trends in the rate of profit arise. However, in the long term, according to Marx’s thesis, the rate of profit must fall.

With this “law,” Marx formulates a very far-reaching existential proposition, which cannot be empirically proven nor refuted. The “law” claims that a fall in the rate of profit results in the long-term from the capitalist mode of development of the forces of production. If the rate of profit has fallen in the past, this does not constitute a proof—since the law purports to apply to future development, and the mere fact of a fall in the rate of profit in the past says nothing about the future. If the rate of profit has risen in the past, then this is also not a refutation, since the law does not require a permanent fall, but rather merely a “tendential” fall, which can still occur in the future. Even if the law cannot be empirically verified, the argumentative conclusiveness of Marx’s reasoning can be discussed.

Here, two points have to be distinguished. The first point concerns the relationship between “the law as such” and the “counteracting factors.” Marx assumes that the fall in the rate of profit, derived as a law, in the long term outweighs all counteracting factors. Yet Marx does not offer a reason for this.

The second point concerns the “law as such”: does Marx actually manage conclusively to prove the “law as such”? This section will be concerned solely with this point: it can be shown that Marx does not succeed in providing such a proof. The “law of the tendency of the rate of profit to fall” does not first fall apart in the face of the “counteracting factors”; it already falls apart because the “law as such” cannot be substantiated.
In order to argue for the fall in the rate of profit, Marx initially presupposes a constant rate of surplus-value and considers in a numerical example a rising value composition of capital, which then necessarily leads to a fall in the rate of profit. Not explicitly, but in principal Marx uses in this observation an expression of the rate of profit that he obtains from the first equation:

\[
p = \frac{s}{c + v}
\]  
(1)

by dividing the numerator and denominator by \(v\):

\[
p = \frac{s/v}{(c/v) + 1}
\]  
(2)

If, as Marx initially assumes, the numerator \(s/v\) remains constant while the denominator \((c/v) + 1\) grows, because \(c/v\) grows, then it is clear that the value of the entire fraction falls. However, the numerator does not remain constant. The value composition of capital increases because of the production of relative surplus-value, that is to say in the case of an increase in the rate of surplus-value. Contrary to a widespread notion, the increase in the rate of surplus-value as a result of an increase in productivity is not one of the “counteracting factors,” but is rather one of the conditions under which the law as such is supposed to be derived, the increase in \(c\) occurring precisely in the course of the production of relative surplus-value, which leads to an increasing rate of surplus-value. For that reason, shortly after the introductory example Marx emphasizes that the rate of profit also falls in the case of a rising rate of surplus-value. The question, however, is whether this can be conclusively argued.

If not only the value-composition of capital grows, but also the rate of surplus-value, then in the above fraction, both the numerator and denominator increase. When Marx claims a fall in the rate of profit,
then he must demonstrate that in the long term the denominator grows faster than the numerator. Yet there is no evidence whatsoever for such a comparison in the speed of growth. Marx circles around this problem in the text more than he actually delivers any substantiation. His uncertainty becomes clear every time he asserts that the law has been proven, only to once again begin with an argument for it. These attempts at substantiation rest upon the notion that not only does the rate of surplus-value increase, but also that the number of workers employed by a capital of a given size decreases.

In the notes from which Engels constructed the fifteenth chapter of the third volume, Marx appears finally to be able to prove a fall in the rate of profit even in the case of an increasing rate of surplus-value with the following argument: if the number of workers continues to decrease, then at some point the surplus-value they create will also decline—regardless of how much the rate of surplus-value may rise. This can be easily seen using a numerical example: twenty-four workers, each of whom yield two hours of surplus-labor, yield a total of forty-eight hours of surplus-labor. However, if as a result of a strong increase in productivity, only two workers are necessary for production, then these two workers can only yield forty-eight hours of surplus-labor, if each works for twenty-four hours and does not receive a wage. Marx thus concludes that “the compensation of the reduced number of workers by a rise in the level of exploitation of labour has certain limits, that cannot be overstepped; this can certainly check the fall in the profit rate, but it cannot cancel it out.”

However, this conclusion is only correct if the capital \((c + v)\) necessary to employ the two workers is of an amount at least as great as that required to employ twenty-four workers before. Marx had merely demonstrated that in equation (1), the value of the numerator decreases. If a decline in the value of the entire fraction is to result from the decrease in the value of the numerator, then the denominator must at least remain constant. If the value of the denominator also decreases, then we would have the problem that
numerator and denominator decrease, and it then becomes a question as to which decreases faster. However, we cannot exclude the possibility that the capital used to employ the two workers is smaller than that required to employ twenty-four. Why? Only wages for two workers have to be paid, instead of for twenty-four. Since an enormous increase in productivity has occurred (instead of twenty-four, only two workers are necessary), we can assume a considerable increase in productivity in the consumer goods industry, so that the value of labor-power also decreases. So the sum of wages for the two workers is not only one-twelfth that of the twenty-four workers, it is in fact much smaller. However, on the other hand the constant capital used up also increases. But for the denominator $c + v$ to at least remain the same, *it is not enough that $c$ increases*; $c$ must also increase at least by the same amount that $v$ decreases. Yet we do not know how much $c$ increases, and for that reason, we do not know whether the denominator increases, and we therefore also do not know whether the rate of profit (the value of our fraction) decreases. So nothing has been proven.

Here, a fundamental problem is made abundantly clear: regardless of how we express the rate of profit, it is always a relation between two quantities. The *direction* of movement for these two quantities (or parts of these two quantities) is known. That, however, is not sufficient; the point is, *which of the two quantities changes more rapidly*—and we do not know that. For that reason, at the general level at which Marx argues, nothing can be said concerning long-term tendencies of the rate of profit.30 There is an additional problem, which cannot however be discussed here in any detail. The growth of $c$, from which the decline in the rate of profit supposedly results, is not completely unlimited. In the second part of the fifteenth chapter of the first volume of *Capital*, Marx argues that the additional application of constant capital encounters its own limits in the reduction of variable capital. If this is consistently taken into consideration, this presents a further argument against the “law as such.”31
Crisis Theory Without the Tendency of the Rate of Profit to Fall

Since many Marxists regarded the “law of the tendency of the rate of profit to fall” as the foundation of Marx’s theory of crisis, they vehemently defended it against every critique. The assumption that Marx intended to base his theory of crisis upon this law, however, is primarily a consequence of Engels’s editorship of the third volume of *Capital*. Marx’s manuscript of 1865, which was the foundation of Engels’s edition, is barely divided into subsections. It only has seven chapters, from which Engels made seven parts. In Marx’s manuscript, the third chapter on the fall in the rate of profit is not divided into any subsections. Its division into three separate chapters was done by Engels. The first two chapters on the “law as such” and the “counteracting factors” closely follow Marx’s argumentation, but the manuscript then flows out into a sea of notes and constantly interrupted thoughts. Engels heavily revised this material to construct the third chapter on the “law”: he condensed it with abridgments, he made rearrangements, and divided it into four subsections. This created the impression of an already largely completed theory of crisis. And since Engels gave the whole thing the chapter title “Development of the Law’s Internal Contradictions,” he created—on the part of readers who did not know that this chapter title did not at all originate with Marx—the expectation that this theory of crisis was a *consequence* of the “law.”

If we turn to Marx’s text without any such preconceived notions, then it quickly becomes clear that Marx’s considerations do not yield any unified theory of crisis, but contain rather disparate thoughts on crisis theory. The most general formulation of capitalism’s tendency to crisis is completely independent of the “law of the tendential fall in the rate of profit”; rather, its starting point is the immediate purpose of capitalist production, surplus-value or rather profit. Here, a fundamental problem becomes apparent:
The conditions for *immediate* exploitation and for the realization of that exploitation are not identical. Not only are they separate in time and space, they are also separate in theory. The former is restricted only by the society’s productive forces, the latter by the *proportionality between the different branches of production* and by the society’s *power of consumption*. And this is determined neither by the absolute power of production nor by the absolute power of consumption but rather by the power of consumption within a given framework of *antagonistic conditions of distribution*, which reduce the consumption of the vast majority of society to a minimum level, only capable of varying within more or less narrow limits. It is further restricted by the drive for accumulation, the drive to expand capital and produce surplus-value on a larger scale…. The market, therefore, must be continually extended […] the more productivity develops, the more it comes into conflict with the narrow basis on which the relations of consumption rest. It is in no way a contradiction, on this contradictory basis, that excess capital coexists with a growing surplus population.34 [italics added]

Here, Marx points out a fundamental contradiction between the tendency towards an unlimited production of surplus-value, and the tendency toward a limited realization of it, based upon the “antagonistic conditions of distribution.” Marx is not advocating an underconsumptionist theory here, which only takes up capitalism’s limitations upon the possibility for consumption by wage-laborers, since he also includes the “drive to expand capital” in society’s power of consumption.35 It is not only the consumer demand of the working class, but also the investments of businesses that determine the relationship between production and consumption. However, the limitations upon the drive for accumulation are here not further substantiated by Marx. To do that, it would have been necessary to include the credit system in these observations. On the one hand, the credit system plays a role here, which Marx worked out in the manuscripts for book II. The realization of surplus-value in an amount of money beyond the capital advanced as c + v is ultimately made possible by the credit system.36 On the other hand, that which
was already clear to Marx in the *Grundrisse* must also be systematically assimilated: “in a general crisis of overproduction the contradiction is not between the different kinds of productive capital, but between industrial and loan capital; between capital as it is directly involved in the production process and capital as it appears as money independently (*relativement*) outside that process.”

So a systematic treatment of crisis theory cannot therefore follow immediately from the “law of the tendency of the rate of profit to fall,” but only *after* the categories of interest-bearing capital and credit have been developed. The theoretical position for crisis theory suggested by Engels’s editorship is definitely wrong, but this suggestion has been extremely influential: many Marxist approaches to crisis theory completely disregard credit relationships and consider the root causes of crisis to be phenomena that have nothing to do with money and credit.

Since Marx’s theory of credit remained fragmentary in the manuscript of 1865, and Marx no longer explicitly took up the question of the relationship between production and credit in his approach to crisis theory, his theory of crisis is not just incomplete in a *quantitative* sense (to the extent that a part is missing); rather, it is incomplete in a *systematic* sense. As the following section demonstrates, this was abundantly clear to Marx—in contrast to many later Marxists.

Marx’s Research Program in the 1870s

The debates on the tendential fall in the rate of profit and crisis theory conducted in connection with volume III of *Capital* are based upon a text that Marx wrote in 1864–1865. In accordance with the classification introduced in the first part of this article, this text belongs to the first draft of *Capital*. However, Marx did not stop there. The second draft (1866–1871) brought progress in the development of book II; on the themes of book III, only shorter manuscripts emerged. However, already an expansion of the treatment of the credit system can be observed. In the *Manuscript of*
1863–1865, credit was to be merely a subsidiary point within the section on interest-bearing capital. However, in a letter to Engels from April 30, 1868, in which Marx explains the structure of book III, the treatment of credit is already on an equal footing with interest-bearing capital. On November 14, 1868, Marx writes to Engels that he will “use the chapter on credit for an actual denunciation of this swindle and of commercial morals.” This initially means a comprehensive illustration, however, it is foreseeable that this illustration requires a more far-reaching theoretical advance. Marx already seems to have adjusted to the need for such a deepening: in 1868 and 1869, comprehensive excerpts on credit, the money market, and crises emerge.

The most important changes occurred as Marx was working on the third draft (1871–1881). Presumably, Marx was plagued by considerable doubts concerning the law of the rate of profit. Already in the *Manuscript of 1863–1865*, Marx was not completely convinced with his explanation, as is made clear by the repeated attempts at formulating a justification. These doubts were probably amplified in the course of the 1870s. In 1875, a comprehensive manuscript emerges which was first published under the title *Mathematical Treatment of the Rate of Surplus-Value and Profit Rate*. Here, under various boundary conditions and with many numerical examples, Marx attempts mathematically to grasp the relationship between the rate of surplus-value and the rate of profit. The intent is to demonstrate the “laws” of the “movement of the rate of profit,” whereby it quickly becomes apparent that in principle all sorts of movement are possible. Several times, Marx makes note of possibilities for the rate of profit to increase, although the value-composition of capital was increasing. In the case of a renewed composition of book III, all of these considerations would have had to find their way into a revision of the chapter on the “Law of the Tendency of the Rate of Profit to Fall.” A consistent regard for them should have led to the abandonment of the “law.” Marx also hints at this in a handwritten note he made in his copy of the second edition of volume I, which no longer fits the tendential fall and which
Engels incorporated as a footnote in the third and fourth editions: “Note here for working out later: if the extension is only quantitative, then for a greater and a smaller capital in the same branch of business the profits are as the magnitudes of the capitals advanced. If the quantitative extension induces a qualitative change, then the rate of profit on the larger capital rises at the same time.”

Understood in context, the “qualitative extension” refers to a rising value-composition of capital. Marx proceeds here from the assumption of a *rising* rate of profit accompanying a rising value-composition of capital, which is diametrically opposed to the argument of the law of the rate of profit in the *Manuscript of 1863–1865*.43

Changes were also planned in other areas. It is widely known that since 1870, Marx engaged in an intense study of landed-property relations in Russia, and even learned Russian in order to read the corresponding literature.44 Marx also had a great interest in the United States, which was developing at an immensely rapid pace. An interview with John Swinton from 1878 indicates that Marx was planning on presenting the credit system by means of the conditions in the United States, which would have led to a complete revision of the section on interest and credit.45 At the same time, England would therefore have no longer been the “*locus classicus*” of the capitalist mode of production, as Marx refers to it in the preface to the first volume of *Capital*.

With regard to crisis theory, Marx is increasingly convinced that inquiry basically has not come far enough for him to proceed to an “appropriate” presentation of the “real movement” that he speaks of in the postface of the second edition of volume I.46 In a letter to Engels from May 31, 1873, Marx wonders whether it would be possible “to determine mathematically the principal laws governing crises.”47 Such a possibility would assume that crises proceed with enormous regularity. The fact that Marx raises the question of mathematical determination shows that he is not yet clear about the
extent of this regularity. In a letter to Danielson from April 10, 1879, Marx finally writes that he cannot complete the second volume (which was to encompass Books II and III): “before the present English industrial crisis had reached its climax. The phenomena are this time singular, in many respects different from what they were in the past…. It is therefore necessary to watch the present course of things until their maturity before you can ‘consume’ them ‘productively,’ I mean ‘theoretically.’”

So Marx is still in the middle of the process of research and theory-building that must come before the presentation. In fact, at the end of the 1870s, Marx was confronted with a new type of crisis: a stagnation lasting for years, which is distinguished sharply from the rapid, conjunctural up and down movement which he had hitherto known. In this context, Marx’s attention is drawn to the now internationally important role of the national banks, which have a considerable influence upon the course of the crisis. The observations reported by Marx make clear that a systematic treatment of crisis theory is not possible on the immediate basis of the law of the tendential fall in the rate of profit (as suggested by Engels’s edition of the third volume of Capital), but rather only after a presentation of interest-bearing capital and credit. However, if the national banks play such an important role, then it is very doubtful whether the credit system can be categorically presented while excluding an analysis of the state. The same holds for the world market. It was already clear to Marx in the Manuscript of 1863–1865 that the world market was “the very basis and living atmosphere of the capitalist mode of production,” but he still was of the opinion that he had to initially abstract from relations on the world market. It is questionable, however, whether or to what extent the presentation of the “shapings of the total process” (Gestaltungen des Gesamtprozesses) envisioned by Marx for book III is at all possible in abstraction from the state and the world market. If, however, this is in fact not possible, then the construction of Capital as a whole is called into question.
In light of these considerations and extensions, a mere revision of the previously existing manuscripts was no longer a realistic possibility for Marx. The variety of new results, the geographical expansion of perspective (United States and Russia), the new fields of research that have to be integrated—all of this necessitates a fundamental revision of the hitherto existing manuscripts, a fact that is clearly recognized by Marx. In a letter to Ferdinand Domela Nieuwenhuis from June 27, 1880, Marx wrote that “certain economic phenomena are, at this precise moment, entering upon a new phase of development and hence call for fresh appraisal.”

A year-and-a-half later, Marx was thinking about a complete revision of the first volume of *Capital*. On December 13, 1881, he wrote to Danielson that the publisher had announced to him that soon a third German edition of the first volume would be necessary. Marx would agree to a small print run with a few minor changes, but then for a fourth edition he would “change the book in the way I should have done at present under different circumstances.” Alas, a version of *Capital* integrating the insights and questions gained in the 1870s remained unwritten.

Notes


2. ← These observations can be found in his *Book on Crisis*, a collection of materials about the crisis ordered according to countries. The *Book on Crisis* will be published in Karl Marx and Friedrich Engels, *Gesamtausgabe* (*MEGA*) (Berlin: Dietz-Verlag, later Akademie-Verlag, 1975), II/14 (henceforth *MEGA*; the *MEGA* is divided in four sections: the Roman number stands for the section, and the Arabic number for the volume in this section.)


5. ← *MECW*, vol. 29, 91.


13. ← The double requirement posed by Marx with regard to “capital in general,” of presenting a specific content (everything that appears in competition) at a certain level of abstraction (abstracted from individual capitals and the particularities of capital) proved to be unfeasible. The presentation of the process of capitalist reproduction as a whole and the constitution of the social average rate of profit is not possible at this level of abstraction; the distinction between particular sectors of social production and the competition of individual capitals are required. However the process of capitalist reproduction as a whole and the average rate of profit have to be developed before interest-bearing capital can be presented, and the latter has to be presented before the real movement of competition can be dealt with (for a more extensive discussion of this point, see Michael Heinrich, *Die Wissenschaft vom Wert. Die Marxscbe Kritik der politischen Ökonomie zwischen wissenschaftlicher Revolution und klassischer Tradition [The Science of Value: Marx’s Critique of Political Economy Between Scientific Revolution and Classical Tradition],*
5th edition (Münster: Westfälisches Dampfboot, 2011); an English translation will be published by Brill in 2014.


15. Included in *MEGA*, II/11.


21. Marx subjected Ricardo’s theory of ground rent to an extensive critique in numerous passages of the *Theories of Surplus-Value*, see *MECW*, vol. 31, 457-551. A critique of Ricardo’s explanation of the falling profit rate can be found in *MECW*, vol. 32, 72-103.


23. Ibid, 970.


27. Simon Clarke, like many others, accentuates that Marx’s profit law has to be seen not in isolation but in a “wider theoretical context” as part of the “complex analysis of secular tendencies of capitalist accumulation.” See Marx’s Theory of Crisis (London: Macmillan, 1994), 208. Nevertheless in Chapter 13 of Capital, vol. 3, Marx begins with a discussion of the profit law in such isolation. Marx knows very well that before putting an issue in a wider context, first we have to provide arguments for it. However when the basic arguments already prove to be wrong, they will not become correct by putting them in a wider context. Therefore the profit law will be discussed in the same abstract context in which it was introduced by Marx in Chapter 13.

28. In the case of the “counteracting factors,” the first point dealt with by Marx is the increase in the rate of exploitation—but not as a result of the deployment of machinery, but rather as a result of the prolongation of the working day and the intensification of labor. So in the case of the “counteracting factors,” we are dealing with an additional increase of the rate of surplus-value.


30. The many “proofs” of the law that can be found in the literature, either rest upon logical errors, similar to those just demonstrated in the case of Marx, or upon absurd assumptions, such as the precondition that $v = 0$, as in the work of Andrew Kliman, Reclaiming Marx’s ‘Capital’: A Refutation of the Myth of Inconsistency (Lanham: Lexington, 2007).

31. This problem is discussed, as well as the various attempts at rescuing Marx’s law, in Heinrich, Die Wissenschaft vom Wert.

32. Of course Engels’s intention was not to deceive the reader. He wanted, as he emphasized, to create a “readable” edition. In doing so, he made certain editorial decisions which were not recognizable as editorial decisions to the reader, but which considerably influenced the reader’s understanding of the text. For more on this, see Michael Heinrich, “Engels’ Edition and Marx’s Original Manuscript,” Science & Society 60, no. 4, (Winter

33. ← The various approaches are dealt with more extensively in Heinrich, *Die Wissenschaft vom Wert.*; see also An Introduction to the Three Volumes of Karl Marx’s Capital (New York: Monthly Review Press, 2012)


35. ← Although sometimes formulations can be found that could be understood as underconsumptionist; see Marx, *Capital*, vol. 3, 615.

36. ← At the level of abstraction of book II, where the category of interest-bearing capital has not yet been developed, Marx can only explain this additional amount of money with the anachronistic assumption of additional money reserves of the capitalists.


38. ← *MECW*, vol. 43, 160.

39. ← They will be published in *MEGA IV/19*.

40. ← *MEGA II/14*.

41. ← *MEGA II/14*, 128.

42. ← Marx, *Capital*, vol. 1, 781.

43. ← On the basis of this note, Shalom Groll and Ze’ev Orzech already supposed that Marx doubted his own law of the rate of profit. In light of the manuscripts from the 1870s that have been published in the meantime, this supposition has gained considerable plausibility. See their “Technical Progress and Value in Marx’s Theory of the Decline in the Rate of Profit: an Exegetical Approach,” *History of Political Economy* 19, no. 4 (1987): 604.

44. ← See, among other things, his letter to Kugelmann from June 27, 1870, *MECW*, vol. 43, 528. In connection with his study of Russian landed-property relations, as well as further ethnological studies, Marx also finally transcends the Eurocentrism that one

45. ↩ See *MECW*, vol. 24, 583–85. It is noteworthy, however, that Marx apparently was not familiar with the book *Lombard Street: A Description of the Money Market* (1873) by Walter Bagehot—the publisher of *The Economist*, which Marx read regularly. This book is regarded today as the first formulation of the principles of a money market managed by a central bank.


47. ↩ *MECW*, vol. 44, 504.


49. ↩ See ibid, as well as the letter to Danielson from September 12, 1880, *MECW*, vol. 46, 31.


52. ↩ These were not just limited to the already mentioned landed property, credit, and crisis. The excerpts from the 1870s also dealt with physiology, geology, and the history of technology. They not only show the broad areas of interest to Marx, they are also of direct relevance to *Capital*: Marx’s earlier engagement with technological questions, which were at the foundation of the first volume published in 1867, were no longer sufficient in light of the
state of technical progress that in the meantime had considerably changed not just production, but also communication.

53. \(\rightarrow\) *MECW*, vol. 46, 16.

54. \(\rightarrow\) *MECW*, vol. 46, 161. The unfortunate circumstances mentioned here refer to Marx’s poor health and the death of his wife Jenny on December 2, 1881.
The Unmaking of Marx’s Capital
Heinrich’s Attempt to Eliminate Marx’s Crisis Theory

By Andrew Kliman, Alan Freeman, Nick Potts, Alexey Gusev, and Brendan Cooney 1

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1 Authors’ affiliations: Pace University, New York, U.S. (Kliman); London Metropolitan University, London, UK (Freeman); Southampton Solent University, Southampton, UK (Potts); Higher School of Economics, Moscow, Russia (Gusev); and kapitalism101.wordpress.com (Cooney). Please address correspondence to Andrew Kliman, akliman@pace.edu.
Abstract

Michael Heinrich’s recent *Monthly Review* article claims that the law of the tendential fall in the rate of profit (LTFRP) was not proved by Marx and cannot be proved. Heinrich also argues that Marx had doubts about the law and that, for this and other other reasons, his theory of capitalist economic crisis was only provisional and more or less in continual flux.

This response shows that Heinrich’s elementary misunderstanding of the law—his belief that it is meant to *predict* what must inevitably happen rather than to *explain* what does happen—is the source of his charge that it is unproved. It then shows that a simple misreading of Marx’s text lies at the basis of Heinrich’s claim that the simplest version of the LTFRP, “the law as such,” is a failure. Marx’s argument that increases in the rate of surplus-value cannot “cancel” the fall in the rate of profit is then defended against Heinrich’s attempt to refute it. Finally, the paper presents evidence that Marx was indeed convinced that the LTFRP is correct and that he regarded the crisis theory of volume 3 of *Capital* as finished in a theoretical sense.
1. Introduction

As of this writing, we are in the seventh year of the economic crisis into which the U.S. and European economies plunged following the 2007 financial crisis. According to almost all influential canons of economics, this was not supposed to happen. Even mainstream economists admit that they did not anticipate it, and they are increasingly forced to recognize that they still cannot explain it.

If these failures were limited to the mainstream, we would expect a new generation of radicals to turn rapidly to alternative accounts of economic reality. However, this has not occurred. One important reason why it has not is that a large number of radical economists also engaged in triumphalist predictions, insisting—until the crisis broke out—that capitalism was on a new long-term expansionary path. For example, in their recent book *The Crisis of Neoliberalism*, prominent Marxist economists Gérard Duménil and Dominique Lévy (2011) begin by admitting that

when our book *Capital Resurgent: Roots of the Neoliberal Revolution* was published by Harvard University Press [in 2004, the neoliberal] strategy appeared successful … The contemporary crisis is an outcome of the contradictions inherent in that strategy. The crisis revealed the strategy’s unsustainable character.

The rest of Duménil and Lévy’s book is an attempt to account for the crisis—but on the basis of the same theoretical framework that originally led them to conclude that capitalism was resurgent. What confidence can anyone place in this and other theories that failed to recognize the unsustainable character of the “neoliberal” boom, until the very moment
when it descended into a new crisis?

Despite radical economists’ lack of theoretical self-criticism, some radical activists are nevertheless turning to the ideas of Karl Marx, capitalism’s most consistent critic, even though these ideas have been rejected and dismissed not only by the mainstream but many who present themselves as Marxists. The new generation needs to appraise, without prejudice, whether and how Marx’s theory can help them understand this crisis.

The appearance at this moment of Michael Heinrich’s (2013) “Crisis Theory, the Law of the Tendency of the Profit Rate to Fall, and Marx’s Studies in the 1870s” could have contributed to this much needed clarification, since Heinrich claims to base his presentation—unlike many Marxist scholars—on Marx’s own writings. Unfortunately, it is particularly unhelpful, since it doesn’t actually clarify Marx’s thinking; instead, it is the latest in a long series of efforts to construct what Freeman (2010) has called “Marxism without Marx.”

The point of such efforts is to have one’s cake and eat it too—to disagree with Marx and put forward an alternative theory, but, at the same time, to present oneself as Marx’s successor. This tactic works as follows. The proponents of Marxism without Marx claim to show that his theories are untenable—logically inconsistent, inadequate, or just plain unworthy of consideration—in their original form. This enables them to represent their own works as corrected or improved versions of Marx rather than as the divergent theories that they really are.
We find this tactic objectionable not because we are *opposed* to a multiplicity of different theories contesting with one another, but because we firmly *support* it. What is objectionable is the attempt to make Marx’s own theories disappear by replacing them with one’s own theory, instead of letting both contend. This is actually a religious method; it is designed to frustrate theoretical controversy by ruling legitimate alternatives out of order. A scientific approach should examine all alternative explanations of reality *including* Marx’s own. It is increasingly apparent that a less-than-scholarly motive is involved: were the theories of the Marxists without Marx actually compared to his, as alternative explanations of the present crisis, their shortcomings would be a great deal clearer.

Heinrich revives this tactic, but with two modifications. First, he claims to show not only that Marx’s theory of capitalist crisis is untenable, but also that it isn’t really a theory at all; Marx left us no more than “various fragmentary references to crisis theory” (as Heinrich’s editors put it in their introductory note). Second, and notably, Heinrich doesn’t put forward an alternative crisis theory of his own.

How could it advance our understanding of the crisis to demolish Marx’s theory without providing an alternative? The answer is supplied by the editors of *Monthly Review*. The publication of Heinrich’s article, in a journal which has until now disregarded and even looked askance at serious exegetical study of Marx’s ideas, has to be set in the context of a theoretical project: to resuscitate the implausible theory set out in Paul A. Baran and Paul Marlor Sweezy’s (1966) *Monopoly Capital*. As the editors state in their introduction,
The development of crisis theory within the Marxian tradition has been central to much of our work in the last several years. The view that the various fragmentary references to crisis theory in the three volumes of *Capital* constitute a fully developed coherent structure, which only requires diligent exegesis, is a view that has never seemed sensible to us.

Recent research into the evolution of Marx’s manuscripts … has confirmed our understanding in a very exciting way.

It is quite true that “diligent exegesis” cannot create a crisis theory out of mere fragmentary references. It is also true that Heinrich’s exegesis (which, we will show, is less than diligent) cannot eliminate the crisis theory rooted in the law of the tendential fall in the rate of profit (LTFRP) and the development of its internal contradictions, because its existence is not an exegetical matter. Even if we assume for the sake of argument that Marx’s own thinking about capitalist crisis was unsettled, as Heinrich and *Monthly Review* claim, it is an incontrovertible fact that this theory exists. We are proponents of it.

In our view, the theory explains the present crisis is a way that is both scientifically legitimate and considerably better than the alternatives currently on offer from the Marxist left. A central mechanism of today’s economic crisis is the fact that the rate of profit in the U.S., UK and several other advanced capitalist countries is now falling, and has been falling since the early years of the postwar boom. The theory *explains the cause* of this fact: the accumulation of
invested capital has outstripped the growth of employment, which tends to depress the rate of profit; and the various “counteracting factors” have failed to offset this tendency over any but short periods.

Nothing in Heinrich’s article calls into question either the existence of this theory or the explanatory power we claim for it. He avoids these issues entirely.

The joint aim of Heinrich and the Monthly Review editors is, instead, to disqualify the theory by “proving” that the LTFRP was not proven by Marx and cannot be proven. The central thesis of our response is that this attempt to disqualify the LTFRP fails because it rests on an elementary misunderstanding of what the law is about and what Marx sought to do by means of it.

The Anglophone public is often intimidated by the pronouncements of German Marx scholars, particularly those that refer to the new Marx-Engels-Gesamtausgabe, which is lamentably inaccessible to the Anglophone public for linguistic or physical reasons. For this reason, our critique of Heinrich’s article focuses on its adequacy as an exegetical interpretation of Marx’s texts. Familiarity with Marx’s unpublished writings is important, but a proper evaluation of an exegetical interpretation must still be based on the adequacy of its interpretive evidence and arguments. We intend to show that Heinrich’s article is seriously wanting.

Our argument will proceed as follows:

- Section II will argue that Heinrich’s claim that Marx failed to prove the LTFRP is rooted in his mistaken belief that the law is an assertion that the rate of profit must, under all
circumstances, fall in the long run. In fact, however, the law is not a prediction of what must inevitably happen, but an explanation of what does happen; it explains why the rate of profit does tend to fall in the long run. By demanding a proof of inevitability, Heinrich makes a scientifically unacceptable demand: that Marx should provide a proof of a false statement.

- Section III will discuss his claim that the simplest version of the LTFRP (“the law as such”) is a failure. This claim is rooted in his denial that all increases in the rate of surplus-value (rate of exploitation) are “counteracting factors” to the law as such. We will show that he has simply misread Marx’s text. In addition, we will challenge his attempt to refute Marx’s argument that increases in the rate of surplus-value cannot “cancel” the fall in the rate of profit. Heinrich’s attempted refutation is invalid because it presumes that capital is dis-accumulated and thereby violates a crucial premise of the LTFRP.

- Section IV will challenge the repeated suggestions, by Heinrich and by the editors of *Monthly Review*, that Marx’s theory of capitalist crisis was only provisional and more or less in continual flux. In particular, while Heinrich claims to show that Marx had doubts about the LTFRP, we will present evidence that he was convinced that the law is correct and that he regarded the crisis theory of volume 3 of *Capital* as finished in a theoretical sense.
II. The LTFRP: Assertion of Inevitability or Explanation of Actual Phenomenon?

A. Heinrich’s primary interpretive confusion is introduced by attributing to Marx a claim that does not appear in Marx’s text. “However,” Heinrich states, “in the long term, according to Marx’s thesis, the rate of profit must fall” (emphasis added). He supplies no citation here, and Marx’s text does not support his claim. In particular, the following statement directly contradicts it: “The law operates therefore simply as a tendency, whose effect is decisive only under particular circumstances and over long periods” (Marx 1991a, p. 346, emphasis added). There are only two statements in the part of volume 3 devoted to the LTFRP that seem somewhat similar to what Heinrich has written. In one case, Marx (1991a, p. 337, emphasis added) writes, “In practice, however, the rate of profit will fall in the long run, as we have seen” (Aber in Wirklichkeit wird die Profitrate, wie bereits gesehen, auf die Dauer fallen). The statement that it “will fall” is not the same as the theoretical claim that it “must fall.” This difference is crucial, because Heinrich’s pronouncement that the LTFRP is a “failure” is based on Marx’s “failure” to prove that the rate of profit must fall. But since Marx made no such claim, the absence of a proof does not constitute a failure.

The other statement of Marx’s (1991a, p. 319) that is somewhat similar to Heinrich’s version is, “the rate of profit … must therefore steadily fall.” This statement includes the word “must,” but it is contained in Marx’s initial presentation of “the law itself,” which holds the rate of surplus-value constant. Thus, Marx is simply saying that if constant capital increases faster than variable capital, while the rate of surplus-value is unchanged, then the rate of profit must steadily fall.

This is a simple and unexceptionable mathematical deduction from his value theory, not a claim about what must actually occur in the long run.

B. Heinrich’s mistaken belief that Marx sought to prove that the
rate of profit must fall in the long run, under all circumstances, is intimately bound up with his failure to understand the purpose and function of the LTFRP. He notes correctly that

[t]he idea that the social average rate of profit declines over the long term was considered an empirically confirmed fact since the eighteenth century. Adam Smith and David Ricardo both attempted to demonstrate that the observed fall in the rate of profit was not simply a temporary phenomenon, but rather a result of the inner laws of the development of capitalism. [emphasis added]

However, he then makes a seemingly trivial mistake that is actually of crucial significance:

Marx was not the first to assert a long-term fall in the rate of profit as a result of the inner laws of capitalism. However, he did claim to be the first to have discovered a coherent explanation for this law. [emphases added]

Note that Heinrich contrasts the law to the explanation for it. For Marx, however, the law is the explanation. It explains the “empirically confirmed fact” that the rate of profit does fall (“over long periods” and “under particular circumstances” (Marx 1991a, p. 346)): 
Simple as the law appears from the above arguments, not one of the previous writers on economics succeeded in discovering it, as we shall see later on. These economists perceived the phenomenon, but tortured themselves with their contradictory attempts to explain it. And given the great importance that this law has for capitalist production, one might well say that it forms the mystery around whose solution the whole of political economy since Adam Smith revolves and that the difference between the various schools since Adam Smith consists in the different attempts made to solve it. … political economy has never found this puzzle’s solution. [Marx 1991a, pp. 319–20, emphases added]

Marx claims credit for having discovered the law, even though the economists “perceived the phenomenon,” because he was the first to solve the mystery/puzzle, i.e. to successfully explain why the rate of profit tends to fall in the long run. He does not claim credit for discovering the phenomenon of a falling rate of profit. Nor does he claim (here or elsewhere) to have proved that the rate of profit must fall in the long run.

Shortly after contrasting the law to Marx’s “explanation for this law,” Heinrich briefly gets the law right, equating the law and the explanation: “The ‘law’ claims that a fall in the rate of profit results in the long-term from the capitalist mode of development of the forces of production.” Notice that this statement does not say that the rate of profit must fall in the long run. It says that the capitalist mode of development of the forces of production—accumulation of capital accompanied by labour-saving technical change that increases productivity—is the dominant cause, in the long run, of the fall in the rate of profit. This is indeed Marx’s explanation, Marx’s law. The rate of profit falls only under particular circumstances, and it can fall for other reasons, such as rising wage
rates (Marx 1991a, p. 346, p. 347), but if and when it does exhibit a long-term decline, the capitalist mode of development of the forces of production is the dominant cause of that decline.

However, given Heinrich’s preoccupation with Marx’s “failure” to prove the proposition that the rate of profit must fall in the long run— with absolute certainty, come what may—it is clear that it is this proposition that he is referring to when he declares the law a failure. But this proposition is not Marx’s law. It is not an explanation of an actual phenomenon.

Thus, Heinrich simply does not understand what the LTFRP is or what Marx is trying to prove. As a result, he is in no position to evaluate the law’s success or failure. Because he misconstrues the law as an assertion that the rate of profit must fall, he demands proof of this assertion and he triumphantly declares that the LTFRP is a failure since the assertion cannot be “proven.” However, once one does understand what the LTFRP actually is and what Marx was actually trying to prove—the ability of his value theory, together with his theory of capitalist accumulation, to explain “an empirically confirmed fact”—it becomes clear that Heinrich’s demand for proof and his declaration that the LTFRP is a failure are ludicrous.

Consider another law that explains a phenomenon, the law of gravitation. It explains why and how bodies tend to move toward one another. But if Heinrich were a physicist, he would publish an article in the Monthly Physical Review, accompanied by an endorsement by the journal’s editors, which tells us that the law of gravitation is instead an assertion that bodies must move
toward one another, come what may. He would demand that this assertion be proven, after which he would point to the fact that the moon orbits the earth instead of crashing into it and thereby demonstrate that the assertion cannot be proven. And then he would triumphantly declare that the law of gravitation is a failure.

But the actual failure would be Heinrich’s failure to understand what the law of gravitation is and what Newton was trying to prove. The fact that the moon orbits the earth does not invalidate the law of gravitation, because the law doesn’t assert that bodies must move toward one another, come what may. It explains why they do so if and when they do so. In the same manner, the fact that the laws of mathematics and logic do not rule out cases in which the rate of profit rises does not invalidate the LTFRP, because this law doesn’t assert that the rate of profit must fall, come what may. It explains why it does fall, when this happens.

According to Heinrich, “Marx assumes that the fall in the rate of profit, derived as a law, in the long term outweighs all counteracting factors. Yet Marx does not offer a reason for this.” However, the reason is simple and obvious: the fall in the rate of profit “was considered an empirically confirmed fact.” If it is indeed a fact, and if Marx’s law explains it correctly, then it must be the case that the tendency for the rate of profit to fall has in the long run outweighed the counteracting factors. In the same manner, the current (quantum-mechanical) laws of physics are probabilistic, and therefore do not rule out the possibility that a coin flipped into the air will float away instead of falling to the ground. But if it does fall to the ground, and if the laws of physics are correct, then it must be the case that the attractive force of gravity has
outweighed all counteracting factors.

c. As we saw above, Heinrich would accept that the LTFRP has been proven only if it has been shown that the rate of profit must fall in the long run, under all circumstances, as a result of accumulation and labour-saving technical change. He contends (in footnote 30) that the “proofs” (in his sense) of the LTFRP “either rest upon logical errors … or upon absurd assumptions, such as the precondition that \( v = 0 \), as in the work of Andrew Kliman, Reclaiming Marx’s “Capital’: A Refutation of the Myth of Inconsistency (Lanham: Lexington, 2007).”

Unfortunately, Marx cannot say “Heinrich has seriously misrepresented my argument,” since he is dead, but it is fortunate that Kliman can say this, since he is alive and one of the authors of this response. He did not attempt to prove that the rate of profit \textit{must} fall. His demonstration, like all others put forward by proponents of the temporal single-system interpretation of Marx’s value theory (TSSI) is a disproof of “Okishio’s theorem” (e.g., Freeman 1996, Potts 2009), which claims that the rate of profit \textit{cannot} fall under certain conditions. Thus, Kliman’s proof consists of the demonstration that it \textit{can} fall:

As I shall show in the fourth section, a tendential fall in the rate of profit becomes \textit{possible, indeed plausible}. 

We shall see that, when value is determined by labour-time and capital value is not spirited away by means of simultaneous valuation, it follows naturally, indeed inescapably, that labor-saving technological progress \textit{can} cause the rate of profit to fall.
Marx’s premise that the amount of new value created is determined by labor-time leads naturally, indeed inescapably, to the conclusion that labor-saving technological progress can cause the rate of profit to fall. [Kliman 2007, p. 115, p. 127, p. 128, emphases added]

Heinrich does not refer to the heated dispute around Okishio’s theorem. This enables him to refrain from acknowledging openly that the theorem has been disproved. Yet he acknowledges this tacitly when he tries to demonstrate that the LTFRP cannot be proved, since such a demonstration would be superfluous and pointless if the theorem—which was alleged to have disproved the LTFRP—were true.

The assumption that variable capital (v) equals zero was made as part of a refutation of Okishio’s theorem, that is, in order to prove that Marx’s law is logically possible. In this context, it is not at all absurd. A purported theorem such as Okishio’s is disproved if any counterexample is exhibited that produces a conclusion that contradicts the purported theorem without violating any of its stated assumptions. Since \( v = 0 \) doesn’t violate any of them, but Kliman exhibited a conclusion that contradicts Okishio’s theorem, the purported theorem was disproved.

Heinrich is equally wrong to allege that this assumption was a “precondition,” something needed in order for the disproof to succeed. As Kliman (2007, p. 121) made clear, it was merely a simplifying assumption: “The Okishio theorem can be, and has been, disproved without” it. And in an endnote accompanying this remark, he cited two other disproofs of Okishio’s theorem which “assume that workers” … consumption is positive,” i.e., that \( v > 0 \). Heinrich refrains from informing the reader about
any of this.

Someone who can’t interpret what Kliman wrote—in a published book—even remotely correctly has no business trying to interpret what a more subtle thinker like Marx wrote in unpublished draft manuscripts. The conclusions that Heinrich draws from manuscripts to which few others have access, and which they therefore cannot check against the original texts themselves, should not be accepted simply on his say-so.

III. The “Law as Such,” Increases in the Rate of Surplus-Value, and their Limited Effect

A. Heinrich makes a second major mistake when he claims that Marx included increases in the rate of surplus-value in the “law as such” instead of considering them separately as counteracting factors to the LTFRP. This claim is the lynchpin of his effort to demonstrate that the law as such (i.e., the LTFRP considered in abstraction from counteracting factors) was not proven by Marx and cannot be proven.”

Heinrich puts forward the following three-step argument:

(a) “[T]he increase in the rate of surplus-value as a result of an increase in productivity is not one of the ‘counteracting factors’ [to the LTFRP], but is rather one of the conditions under which the law as such is supposed to be derived.” But
Marx failed to prove that, if rising productivity causes the rate of surplus-value to rise, then the rate of profit must always fall, in every case. “When Marx claims a fall in the rate of profit, then he must demonstrate that in the long term the denominator grows faster than the numerator.” “[T]he point is, which of the two quantities changes more rapidly—and we do not know that. For that reason, at the general level at which Marx argues, nothing can be said concerning long-term tendencies of the rate of profit.” Hence,

Marx failed to prove the law as such: “[t]he ‘law of the tendency of the rate of profit to fall’ does not first fall apart in the face of the ‘counteracting factors’; it already falls apart because the ‘law as such’ cannot be substantiated.”

Clearly, this whole line of argument stands or falls with the initial premise that “the increase in the rate of surplus-value as a result of an increase in productivity is not one of the ‘counteracting factors.’” Heinrich recognizes that Marx does include a rising rate of surplus-value among the counteracting factors, but he argues (in footnote 28) that Marx was referring only to increases in the rate of surplus-value caused by “the prolongation of the working day and the intensification of labour,” not those caused by “the deployment of machinery” and the resulting increases in productivity. This reading is simply a misreading. In the same paragraph of the section “More Intense Exploitation of Labour” that deals with prolongation of the working day and increasing intensity of labour, Marx (1991a, p. 340, emphases added) writes,

It has already been shown, moreover, … that the procedures for producing relative surplus-value are based, by and large, either on transforming as much as possible of a given amount of labour into surplus-value or on spending as little as possible
labour in general in relation to the capital advanced; so that the same reasons that permit the level of exploitation of labour to increase make it impossible to exploit as much labour as before with the same total capital. *These are the counteracting tendencies* which, while they act to bring about a rise in the rate of surplus-value, simultaneously lead to a fall in the mass of surplus-value produced by a given capital, hence a fall in the rate of profit.

Thus the production of relative surplus-value—i.e., increases in the rate of surplus-value due to the deployment of machinery and the resulting increases in productivity—is indeed one of the counteracting factors, contrary to what Heinrich asserts. His challenge to “the law as such” therefore fails.

In support of his contention that an increase in the rate of surplus-value caused by rising productivity is not among the counteracting factors to the LTFRP, Heinrich also claims to have found a passage in volume 3 of *Capital* that emphasises this supposed fact. “For that reason, shortly after the introductory example Marx emphasizes that the rate of profit also falls in the case of a rising rate of surplus-value.” Yet he fails to provide a citation, and there is only one passage that comes shortly after the introductory example that seems vaguely similar to what Heinrich claims. It reads,

> With the progressive decline in the variable capital in relation to the constant capital, this tendency leads to a rising organic composition of the total capital, and the direct result of this is that the rate of surplus-value, with the level of exploitation of labour remaining the
same or even rising, is expressed in a steadily falling general rate of profit. (We shall show later on why this fall does not present itself in such an absolute form, but rather more in the tendency to a progressive fall.) [Marx 1991a, p. 318-9]

This is certainly not a case in which “Marx emphasizes that the rate of profit also falls in the case of a rising rate of surplus-value.” Marx’s phrase “or even rising” is an aside in a sentence about something else, the effect of a rising organic composition of capital on the rate of profit. More importantly, the sentence provides no support whatever for Heinrich’s claim that the “reason” why Marx added “or even rising” was to emphasize that an increase in the rate of surplus-value caused by rising productivity is not a counteracting factor.

It is true that increases in the rate of surplus-value due to production of relative surplus-value have the same cause (labour-saving technical change) as the rise in the value composition of capital that tends to reduce the rate of profit. When different tendencies have a common cause, many theorists refrain from considering them separately. However, the fact remains that Marx did consider them separately. And given this fact, “the law as such” is unexceptionable.

B. In a paragraph quoted in the preceding subsection, Marx notes that increases in the rate of surplus-value have only a limited effect in offsetting the tendency of the rate of profit to fall: “the counteracting tendencies which … act to bring about a rise in the rate of surplus-value, simultaneously lead to a fall in the mass of surplus-value produced by a given capital, hence a fall in the rate of profit.” We can illustrate this point numerically in an extremely simple way.
Let us suppose that, in a given year, a nation’s advanced (invested) capital is 100 and the value added by labour in each year is 10, measured in some suitable unit such as trillions of dollars or millions of labour-years. Let us further suppose that the rate of surplus-value is 100%, so that variable capital (wages) and surplus-value (profit) both equal 5. The actual rate of profit is then \( \frac{5}{100} = 5\% \). However, the rate of profit could be increased by exploiting labour more. What, then, is the maximum rate of profit that could be achieved? Clearly, 10%, which would occur if no wages were paid at all, and the whole value added of 10 accrued to the capitalists as profit. *Pace* Heinrich, this fact does not mean that one must suppose no wages are paid, in order to deduce the “law as such.” It simply means, in mathematical terms, that the extent to which the law can be overcome by increasing the rate of exploitation has an upper bound. The rate of profit cannot possibly rise above 10%.

Now suppose that, in the course of accumulation, the number of workers employed per 100 units of advanced capital, and thus the value added by labour, falls from 10 to 5. If the rate of surplus-value remains unchanged at 100%, then wages and profit each fall from 5 to 2.5 and the actual rate of profit falls to \( \frac{2.5}{100} = 2.5\% \). This fall can again be offset by a rising rate of surplus-value—but just barely. The *maximum possible* rate of profit is now \( \frac{5}{100} = 5\% \). The best that can be achieved by raising the rate of exploitation is to get back to the *status quo ante*.

And if the number of workers employed per 100 units of advanced capital now falls to 4, no possible increase in the rate of exploitation can restore it. The *maximum possible* rate of profit falls to \( \frac{4}{100} = 4\% \).
Appealing to the simple mathematical relations we have just discussed, Marx (1991a, p. 356) argues that

[t]wo workers working for 12 hours a day could not surplus the same surplus-value as 24 workers each working 2 hours, even if they were able to live on air …. In this connection, therefore, the compensation of the reduced number of workers by a rise in the level of exploitation of labour has certain limits that cannot be overstepped; this can certainly check the fall in the profit rate, but cannot cancel it out.

In other words, if the number of workers employed per unit of advanced capital falls, a rise in the rate of surplus-value can offset the tendency for the rate of profit to fall only to limited extent, as we have just illustrated.

However, Heinrich rejects this simple argument, objecting that Marx failed to prove that the denominator of the rate of profit, advanced capital, will not fall even more sharply than the surplus-value in the numerator. Marx’s conclusion “is only correct if the capital \( (c + v) \) necessary to employ the two workers is of an amount at least as great as that required to employ twenty-four workers before.”

But if the advanced capital, \( c + v \), needed to employ the two workers is not as great as the advanced capital that was formerly needed to employ twenty-four workers, accumulation has gone into reverse. In order to “prove” that falling employment of labour can always be offset by an increase in the rate of surplus-value, and that the rate of profit can therefore always rise, Heinrich presumes and has to presume the dis-accumulation of capital.

However, the LTFRP presupposes an increase in the denominator of the rate of profit, i.e. the accumulation of capital (see, e.g., Marx 1991a, pp. 324–6). Throughout his
discussion of the law, Marx is inquiring into the effects of accumulation of capital that has a labour-saving “bias.” Heinrich thus “refutes” the conclusion of Marx’s argument by presuming the absence of one of its key premises. This procedure is clearly logically invalid.

IV. The Theoretical Completeness of Marx’s Crisis Theory

Heinrich repeatedly argues that Marx had doubts about whether the LTFRP is correct, and that he might well have abandoned it had he lived longer. These alleged doubts are the key basis on which rest the repeated suggestions (by Heinrich and by the editors of *Monthly Review*) that Marx’s theory of capitalist crisis was unfinished in a theoretically relevant sense—that is, never more than provisional—and more or less in continual flux. We shall first consider the evidence that Heinrich puts forward, and then turn to other evidence, which he fails to discuss, that Marx was indeed convinced of the correctness of the LTFRP and that he regarded his crisis theory as finished (in a theoretical sense).

A. Heinrich writes, “Already in the *Manuscript of 1863–1865*, Marx was not completely convinced with his explanation, as is made clear by the repeated attempts at formulating a justification” of the LTFRP. However, he provides no evidence or argument that Marx had
difficulty formulating a justification of the law. It seems to us that a reasonable case can be made that Marx had difficulty in developing a publishable presentation of the LTFRP, and thus made repeated attempts to do so, but that is a very different matter.

“Marx’s” doubts about this law are not present in his texts themselves. Their actual source is the fact that Heinrich utterly fails to understand the purpose and function of the LTFRP, as we discussed in Section II. He writes,

When Marx claims a fall in the rate of profit, then he must demonstrate that in the long term the denominator grows faster than the numerator. Yet there is no evidence whatsoever for such a comparison in the speed of growth. Marx circles around this problem in the text more than he actually delivers any substantiation. His uncertainty becomes clear every time he asserts that the law has been proven, only to once again begin with an argument for it.

[Marx’s] doubts were probably amplified in the course of the 1870s. In 1875, a comprehensive manuscript emerges … [in which] Marx makes note of possibilities for the rate of profit to increase, although the value-composition of capital was increasing. In the case of a renewed composition of book III, all of these considerations would have had to find their way into a revision of the chapter on the “Law of the Tendency of the Rate of Profit to Fall.” A consistent regard for them should have led to the abandonment of the “law.”

Heinrich is simply misreading the texts in light of his incorrect belief that Marx tried to prove that the rate of profit must fall, under all circumstances. In light of that incorrect belief, every statement by Marx that the rate of profit does not necessarily fall appears to be an admission of failure and uncertainty.
And Heinrich misconstrues every new attempt to work out a publishable formulation of the LTFRP and every new exploration of its implications as one more effort to prove that the rate of profit must fall.

The best evidence that Heinrich’s interpretation is seriously incorrect is the fact that Marx repeatedly asserts that the law has been proven, even though he also repeatedly notes that counteracting factors can outweigh the tendency for the rate of profit to fall, causing the rate of profit to rise. On Heinrich’s reading, these two sets of passages fail to cohere with one another. However, an accepted principle of interpretation known as the “criterion of coherence” or “principle of charity” says that we should reject a reading on which the text fails to cohere in favor of one that produces coherence among the texts. “[T]he adequacy of a given textual interpretation depends on the extent to which it can show the text’s coherence as a– unified whole” (Warnke 1993, p. 21).

Heinrich’s interpretation utterly fails to satisfy this criterion. But in keeping with the whole Marxism without Marx tradition, he blames his own failure on Marx. Heinrich should have accepted that his interpretation fails to make the texts cohere, and he should have searched for a more successful interpretation. Instead, he wrongly charges that it is Marx’s text rather than his own interpretation that fails the test of coherence.
b. One crucial kind of evidence that Marx was indeed completely convinced that the LTFRP is correct is the fact that he repeatedly “assert[ed] that the law has been proven.” This is a fact that Heinrich concedes; indeed, these are his own words.

In addition, there is considerable evidence in Marx’s correspondence—spanning the period from 1865 to 1877—that he was satisfied with his theoretical results and that he regarded Capital, not only the first volume that he published but also the volumes that remained unpublished, as a finished product in a theoretical sense.

On July 31, 1865, he wrote to Frederick Engels that

[t]here are 3 more chapters to be written to complete the theoretical part (the first 3 books). Then there is still the 4th book, the historical-literary one, to be written, which will, comparatively speaking, be the easiest part for me, since all the problems have been resolved in the first 3 books, so that this last one is more by way of repetition in historical form. But I cannot bring myself to send anything off until I have the whole thing in front of me. WHATEVER SHORTCOMINGS THEY MAY HAVE, the advantage of my writings is that they are an artistic whole, and this can only be achieved through my practice of never having things printed until I have them in front of me in their entirety. [Marx 1987, p. 173. Phrases emphasized by us are in italics; the phrase in boldface was emphasized by Marx. The phrase in small caps was written in English.]

This letter indicates that Marx had resolved, to his satisfaction, all of the theoretical problems he had confronted (note the phrase “have been resolved”). It further indicates that he would
not allow volume 1 of *Capital* to be published until the *whole* of *Capital* was complete in a theoretical sense. Thus, the publication of volume 1 a couple of years later is further evidence that Marx regarded the whole of *Capital* as complete and satisfactory in a theoretical sense.

On February 13, 1866, he wrote to Engels that

> [a]s far as this “damned” book is concerned, the position now is: it was *ready* at the end of December. The treatise on ground rent alone, the penultimate chapter, is in its present form almost long enough to be a book in itself. …

Although *ready*, the manuscript, which in its present form is gigantic, is not *fit for publishing* for anyone but myself, not even for you.

… I began the business of copying out and *polishing the style* on the dot of January first,

… [Marx 1987, p. 227, emphases in original]

The book that Marx says was *ready* at the end of 1865 is not volume 1 of *Capital* (or not it alone), since the “treatise on ground rent” is part of what became volume 3, the volume that contains Marx’s LTFRP and the crisis theory based on it. *The whole* of *Capital* is said by the author to have been ready, or finished, as of the end of 1865. Note also that the distinction between being ready in a theoretical sense and ready in the sense of stylistically polished and “fit
for publishing” is not ours, but Marx’s. The letter indicates that he regarded it as ready in the former sense even though it was not ready in the latter.

On April 30, 1867, Marx (1987, pp. 366-7) wrote to Sigrid Mayer that

I should really have thought myself unpractical if I had pegged out [died] without finally completing my book, at least in manuscript.

The first volume of the book will be published by Otto Meissner in Hamburg in a few weeks.

… I hope that a year from now the whole work will have appeared. Volume II contains the continuation and conclusion of the theory. Volume III the history of political economy from the middle of the 17th century.12

Once again, Marx indicates that he has “finally complet[ed]” the whole of Capital, even though only volume I will soon appear. And he further indicates that he hoped to be able to publish the remaining volumes within a year. That is not something he could have realistically hoped for if he had any doubt about their completeness in a theoretical sense.

Finally, on November 3, 1877, Marx (1991b, p. 287) wrote to Sigmund Schott that

I began by writing Capital in a sequence (starting with the 3rd, historical section) quite the reverse of that in which it was presented to the public, saving only that the first volume— the last I tackled—was got ready for the press straight away, whereas the two others remained in the rough form which all
research originally assumes.

This suggests, yet again, that Marx regarded himself as having completed volume 3 of *Capital* before writing volume 1, although it was complete only in the theoretical sense, not in terms of form, which “remained … rough.”

This was not Marx’s view alone. In his Preface to volume 3 of *Capital*, Engels, who edited the book, complained about the often considerable difficulties he faced when turning the manuscripts that Marx left into a publishable volume. For instance, the manuscript of what became part 5, which deals with the division of profit into interest and “profit of enterprise,” was only “the beginning of an elaboration which petered out more than once in a disordered jumble of notes, comments and extract material” (Engels 1991, pp. 94–5). In marked contrast to this, the manuscript of what became part 3, on the LTFRP and the theory of crisis based on it, were such that “I was able to keep almost completely to the original manuscript, apart from stylistic editing” (Engels 1991, p. 94, emphasis added).

Heinrich’s article may seem to call Engels’ evaluation into question, but a careful reading indicates that it does not. Heinrich tells us that it was Engels, not Marx, who divided part 3 into chapters. He also tells us that Engels gave the final chapter of part 3 (in which Marx discussed the relationship between the internal contradictions of the LTFRP and economic crisis) a title, and that “he condensed it with abridgments, he made rearrangements, and divided it into four
subsections.” Quite so. This is what a good editor does. It is called what Engels called it— stylistic editing.

As much as Heinrich may wish us to believe that this chapter is a “construction” of Engels’, who “heavily revised” Marx’s manuscript, the fact is that he provides no evidence whatsoever that the “already largely completed theory of crisis” that emerged from Engels’ stylistic editing is Engels’ theory rather than Marx’s own. When one condenses, abridges, rearranges, etc., one does not create a theory that was not already there to begin with. One simply makes the theory that is already there more perspicuous. And that is Heinrich’s real gripe against Engels’ editing. He carried out Marx’s request to make something of his unpublished manuscript, while Heinrich wants to unmake it. The clear purpose of this attempted unmaking is to eliminate Marx’s own crisis theory from consideration and thereby enable an alternative “Marx”ist theory to take its place, instead of frankly acknowledging that Marx’s theory exists and allowing it to contend with the alternative one.

Yet even if it were true that the crisis theory of the third volume of Capital is Engels’ rather than Marx’s—or, indeed, our own “construction”—that would not matter at all from a scientific (wissenschaftlich) perspective. It would not matter even if Marx himself might ultimately have come to repudiate it had he lived long enough, as Heinrich suggests. The fact remains that this crisis theory exists. And it is entitled to contend with the alternatives and to be assessed against them on the basis of relative explanatory power, not eliminated and not ignored on the grounds that, as Heinrich’s editors put it, “Marx never ceased to develop his thinking on the phenomena of crises in capitalism, and never ceased to discard earlier formulations.”

References


Notes

1 See for example, the collection by Colander et al. (2009), and Romer (2011, pp. 1–2), who writes, “We thought we had macroeconomic fluctuations well under control, but they are back with a vengeance. … The workhorse new Keynesian dynamic stochastic general equilibrium (DSGE) models on which we were concentrating so much of our attention have been of minimal value in addressing the greatest macroeconomic crisis in three-quarters of a century.” See Potts (2013) for a critique of Keynesian explanations of the latest economic crisis, Kliman (2012) for an alternative empirical account rooted in Marx’s theory, and Freeman (2009) for an early and correct prediction of the length and depth of the crisis in the No-Longer-Developing (“advanced”) countries, rooted in Marx’s theory of the causes of the falling rate of profit and the circumstances in which it is reversed.

2 This crisis theory does not counterpose the fall in the rate of profit to credit-market disturbances and other kinds of financial instability, nor does it privilege the former over the latter. Financial instability is a crucial link between the LTFRP and economic crises, as Marx emphasizes throughout much of the final chapter on the LTFRP in Capital, volume 3. The following statements (by Heinrich and the editors of Monthly Review, respectively) wrongly try to counterpose the LTFRP and financial instability: “a systematic treatment of crisis theory is not possible on the immediate basis of the law of the tendential fall in the rate of profit (as suggested by Engels’s edition of the third volume of Capital), but rather only after a presentation of interest-bearing capital and credit” (emphasis in original). “Marx … never ceased to discard
earlier formulations; for example, at the end of his life he was focused on questions of credit and crisis.” For a discussion of the empirical trend in the rate of profit that takes financial investment into account, see Freeman (2012/13).

3 Here and below, quotations not accompanied by citation information quote Heinrich’s article.

4 In order to answer Heinrich, it is unnecessary to discuss the precise meaning of “long run” (“auf die Dauer”) in this context. We do however emphasize that there no textual support for the assertion, sometimes attributed to Marx, that he claimed the rate of profit would exhibit a declining trend throughout the whole history of capitalism. In particular this is incompatible with Marx’s view that the destruction of capital value through crises repeatedly cancels the effect of the tendency for the rate of profit to decline. See Potts (2011), Kliman (2012, pp. 25–6), and Freeman (2012) for further discussion.

5 It is crucial to understand what “not proven” means in this context: cases in which the numerator of the rate of profit rises in relation to the denominator cannot be ruled out on the basis of the laws of mathematics and logic alone. No reasonable person has ever thought otherwise.

6 Heinrich makes an additional argument against the “law as such”: “The growth of c[onstant capital], from which the decline in the rate of profit supposedly results, is not completely unlimited. In the second part of the fifteenth chapter of the first volume of Capital, Marx argues that the additional application of constant capital encounters its own limits in the reduction of variable capital. If this is consistently taken into consideration, this presents a further argument against the “law as such.’’” However, Marx’s argument is simply that the additional constant capital investment will be undertaken only if it reduces the per-unit cost of production. This requirement does not limit the growth of constant capital. Imagine that the variable capital is $9. If the constant capital is $1, and 10 widgets are produced, the per-unit cost is ($9 + $1)/10 = $1. If the constant capital is now increased to $90, and this results in the production of 100 widgets instead of 1, the per-unit cost falls to $0.99. If the
constant capital is increased again, to $97,991, and the number of widgets produced is now 100,000, the per-unit cost falls to $0.98. And so on. Value can be expressed both in terms of money and in terms of labour-time, and we can move between these two expressions by means of what Ramos-Martinez (2004) has called the monetary expression of labour-time (MELT). For more on the MELT, see Potts (2011); for discussions of how mainstream Marxist economists “misunderstand” it and turn it against the TSSI, see Freeman and Kliman (2008) and especially Potts (2012).

In other words, if the ratio of constant capital to the amount of living labour performed increases without bound and if total capital accumulates without bound, then the rate of profit under discussion (the ratio of surplus-value to total advanced capital) must eventually fall, despite any and all increases in the rate of surplus-value. Heinrich himself tacitly admits this. Note that the rate of profit must eventually fall in this case even if the amount of living labour performed continually increases over time.

The editors write that Marx “never ceased to discard earlier formulations” of his crisis theory and that “the various fragmentary references to crisis theory in … Capital [do not] constitute a fully developed coherent structure.” Heinrich asserts that there is “no final presentation” of Marx’s crisis theory, but only “various approaches [at different times] to explain crises,” marked by “shifts in the theoretical framework” of Marx’s analysis, and only “disparate thoughts on crisis theory” rather than “a unified theory of crisis” even within the text of Capital, volume 3.
Heinrich also points to a comment that Marx wrote in the margin of his copy of volume 1 of *Capital*: “Note here for working out later: if the extension [accumulation of capital] is only quantitative [i.e., if constant capital does not increase relative to variable capital], then for a greater and a smaller capital in the same branch of business the profits are as the magnitudes of the capitals advanced. If the quantitative extension induces a qualitative change [i.e., if constant capital increases relative to variable capital], then the rate of profit on the larger capital *rises* at the same time” (Marx 1990, p. 781 n11, emphasis added). Heinrich claims that Marx “hints” here that he is moving in the direction of abandoning the LTFRP, according to which the rate of profit on the larger capital should (according to Heinrich) fall. However, there are other interpretations that we consider far more plausible. One is that “rises” is merely a slip of the pen, and that Marx meant “falls.” Another is that Marx is referring to a case—fully consistent with his value theory and the LTFRP—that he discusses elsewhere (Marx 1990, pp. 433–6; Marx 1991a, pp. 373–4): since the larger capital’s ratio of constant to variable capital is greater, it is more productive than the smaller capital in the same branch of business. Consequently, its costs of production are lower and its rate of profit is higher. There are several reasons why Heinrich’s interpretation is very implausible. First, the view that labor-saving technical change raises the rate of profit directly contradicts everything else Marx said about the subject. Second, it directly contradicts his value theory as well as his theory that all profit comes from surplus labor. Thus, if Marx were hinting at the abandonment of the LTFRP, he would also be hinting at the abandonment of almost all of *Capital*. In light of the absence of any evidence that he had any doubts about the theories of value and profit, this is very unlikely. Third, what makes it even more unlikely is Marx’s introductory comment, “Note here for working out later.” No serious theorist repudiates the very core of his or her theory in such a nonchalant manner. If Heinrich’s
interpretation were correct, Marx’s comment would be equivalent to Galileo writing “Note here for working out later: the earth is stationary” in the margin of his book.

11 See Kliman (2007, chap. 4 and passim).

12 What Marx calls “volume II” here are the second and third books of Capital, which were eventually published as volumes 2 and 3, respectively. What he calls “volume III” was eventually published under the title Theories of Surplus-Value.

13 Engels heavily revised this material to construct the third chapter on the “law.”

14 Condensation, abridgement, and rearrangement can greatly affect the structure of a poem or novel, since their structure depends heavily on the precise order of different pieces of text. In contrast, the structure of a theory does not depend on the relation between pieces of text, but on the relation between ideas. While stylistic editing can make it easier to recognize how the ideas are related, it cannot alter the relations among them or create relations that did not exist in the first place.

15 Marx might also have gone on to sing “Dancing Queen” while wearing a chicken suit. Or, he might have become a Catholic, a priest, etc. and, finally, the Pope. We have borrowed the latter example from Hegel, who used it to show the puerility of such appeals to mere possibility. “Rational, practical people do not let themselves be impressed by what is possible, precisely because it is only possible; instead, they hold onto what is actual” (Hegel 1991, p. 216, addition to §143).