

The US rate of profit before the COVID

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Every year, I look at measuring the US rate of profit. Official US data are now available to update the measurement of the rate for 2019.

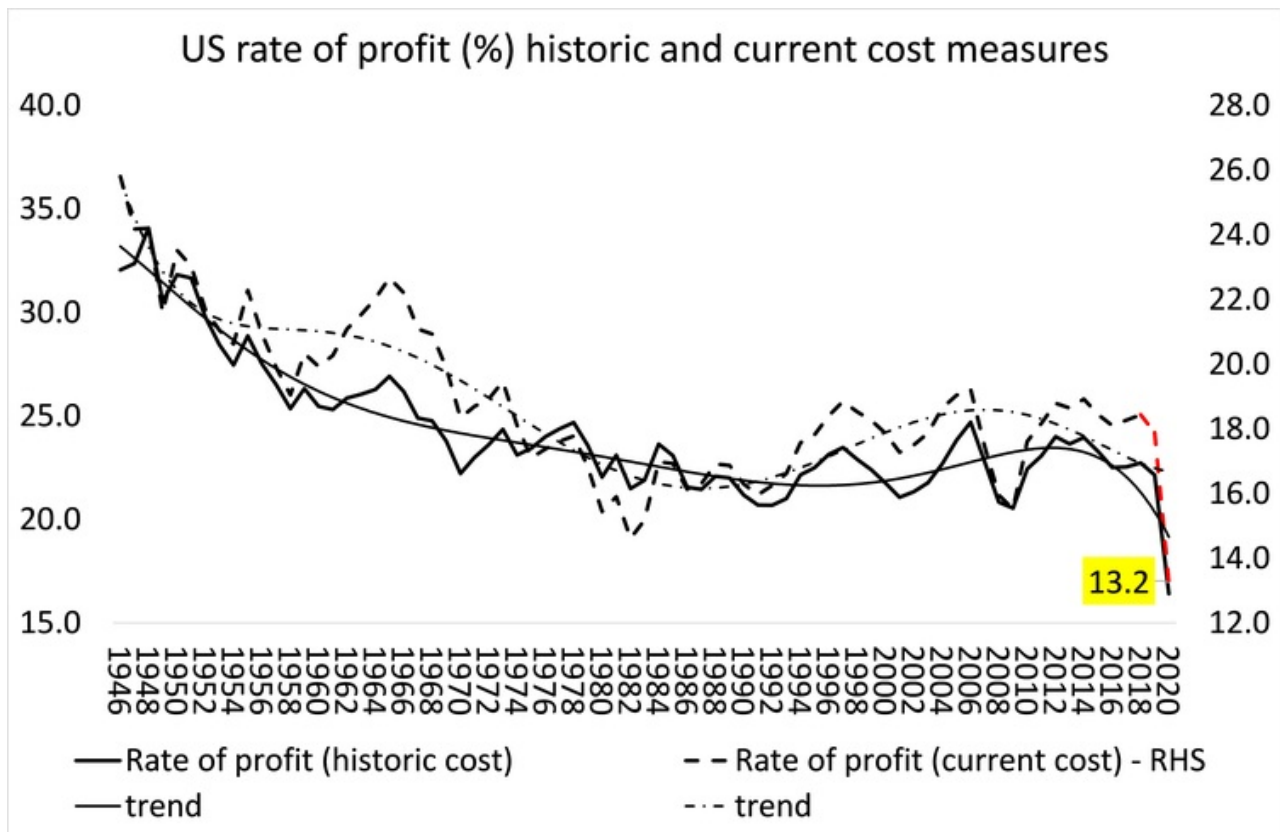
There are many ways to measure the rate of profit (for the various ways, see <http://pinguet.free.fr/basu2012.pdf>). I have one way and you can check and replicate my results by referring to the excellent manual explaining my method, kindly compiled by Anders Axelsson from Sweden.

Readers of my blog and other papers know that I prefer to measure the rate of profit by looking at total surplus value in an economy against total private capital employed in production; to be as close as possible to Marx's original formula of $s/C+v$. So I have what I call a 'whole economy' measure, based on total national income (less depreciation) for surplus value; net non-residential private fixed assets for constant capital; and adding in employee compensation for variable capital. This is what might be called a general or gross rate of profit. The rate of profit will be lower if we look only at the corporate sector, or the non-financial corporate sector, before or after tax etc.

Most Marxist measures exclude any measure of variable capital on the grounds that 'employee compensation' (wages plus benefits) is not a stock of invested capital but a flow of circulating capital. And this cannot be measured easily from available data. I don't agree that this is a restriction and G Carchedi and I have an unpublished work on this point. Even so, given that the value of constant fixed capital compared to variable capital is five to eight times larger (depending on whether you use a historic or current cost measure), the addition of a measure of variable capital to the denominator does not change the trend or turning points in the rate of profit significantly (although it does change the absolute level). This also applies to the rest of circulating capital ie. inventories (the stock of unfinished and intermediate goods), or 'working capital'. They should and could be added as circulating capital to the denominator for the rate of profit, but I have not done so as the results would be little different.

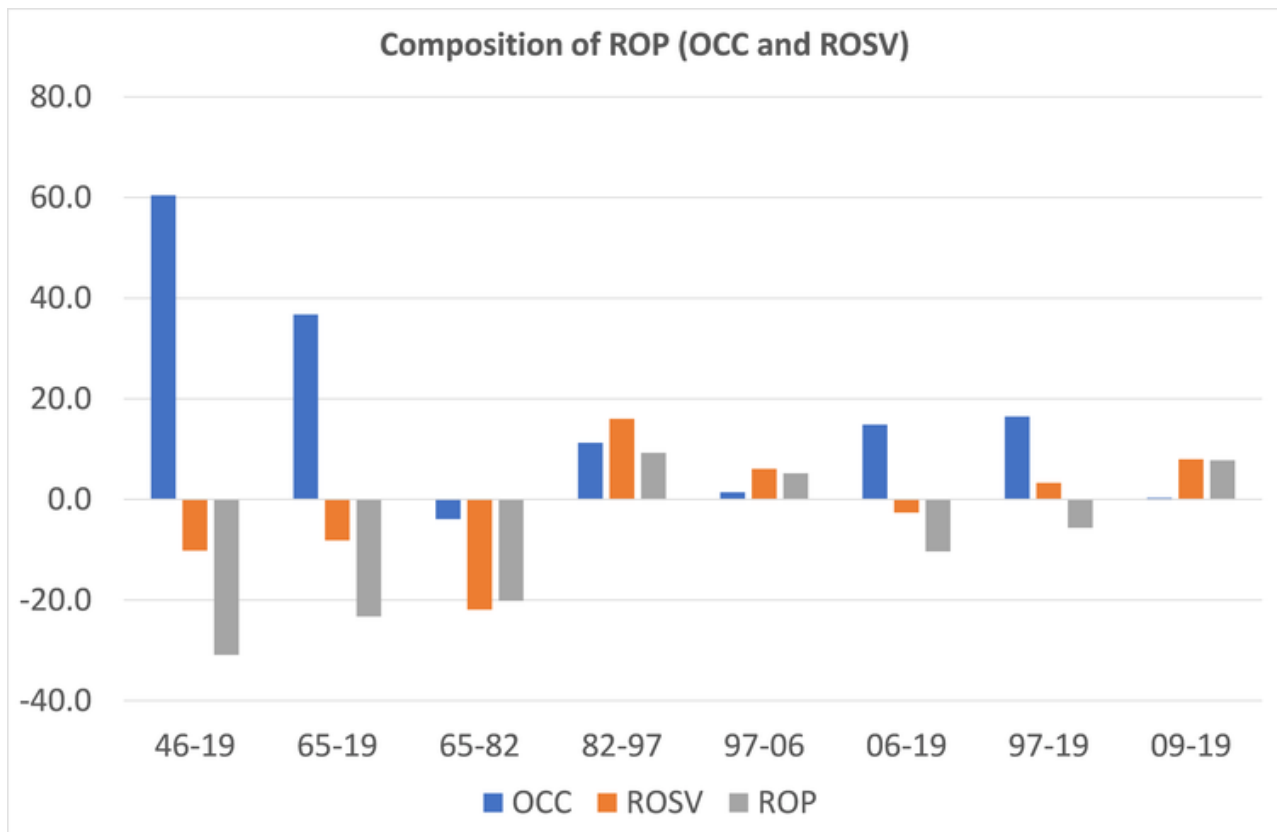
In contrast, Brian Green has done some powerful work in measuring circulating capital and its rate of turnover for the US economy in order to incorporate it into the measure of the rate of profit. He considers this vital to establishing the proper rate of profit and also as an indicator of likely recessions. You can consider the usefulness of Green's work at his website here: <https://theplanningmotive.com/>. All I would say is that adding circulating capital to fixed assets in the denominator of the rate of profit does not make much difference to the outcome for measuring the US rate of profit.

Anyway, on my 'whole economy' measure, the US rate of profit since 1946 to 2019 looks like this.

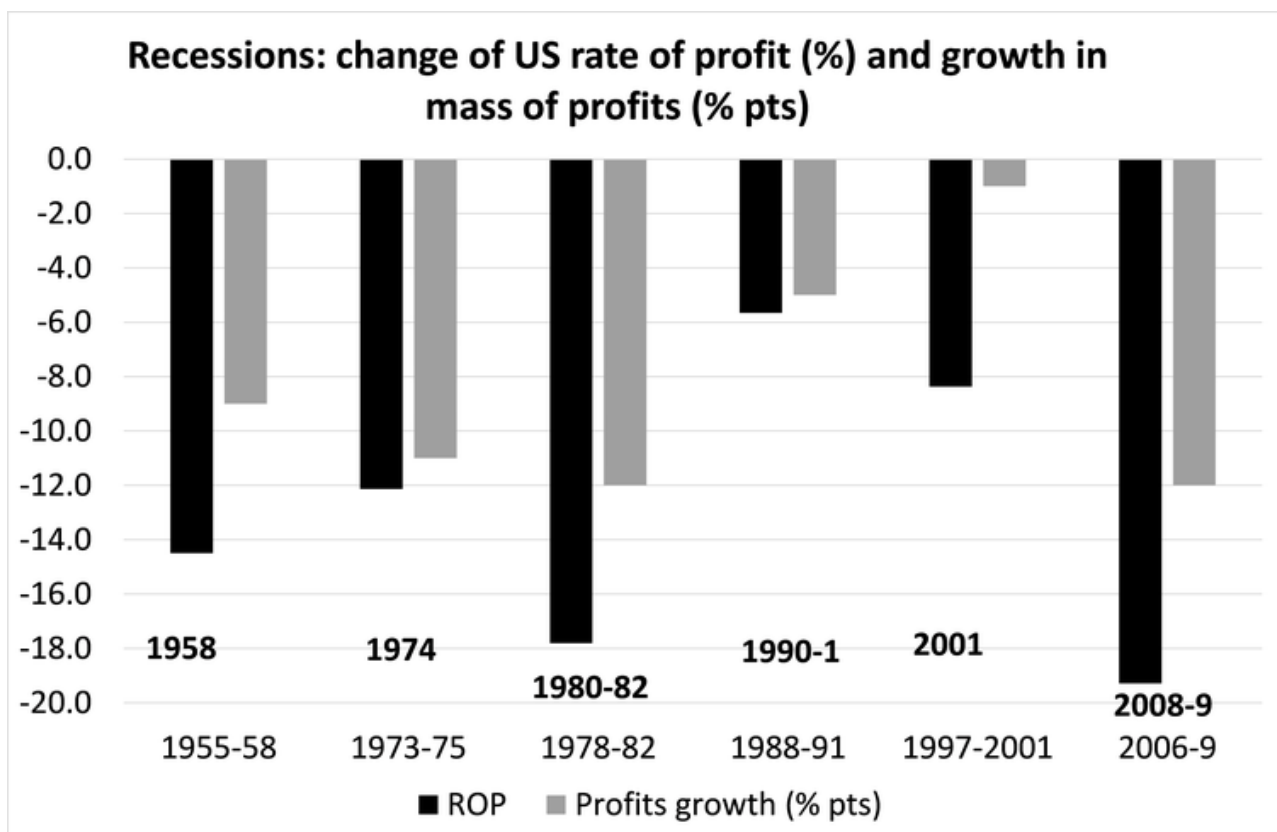


In this graph, I have included measures based on historic (HC) and current costs (CC) for comparison. For an explanation of why I include both, see [my previous posts](#) and my book, *The Long Depression* (appendix). The two measures differ in the 1960s particularly and from the 1990s. The difference is caused by inflation. If inflation is high, as it was between the 1960s and late 1980s, then the divergence between the changes in the HC measure and the CC measure will be greater. When inflation drops off, the difference in the changes between the two HC and CC measures will narrow. From 1965 to 1982, the US rate of profit fell 20% on the HC measure, but 35% on the CC measure. From 1982 to 1997, the US rate of profit rose just 9% on the HC measure, but rose 29% on the CC measure. But over the whole post-war period up to 2019, there was a secular fall in the US rate of profit on the HC measure of 31% and on the CC measure 31%!

Either way, the data confirm Marx's explanation of the trends in profitability. According to Marx, changes in profitability depend on the relative movement of two Marxian categories in the accumulation process: the organic composition of capital (C/v) and the rate of surplus value (exploitation) (s/v). Since 1946, there has been the secular rise in the organic composition of capital (HC measure) of 60%, while the main 'counteracting factor' in Marx's law of the tendency of the rate of profit to fall, the rate of surplus value, has actually fallen over 10%. So the rate of profit fell 31%. Conversely, in the so-called 'neo-liberal' period from 1982 to 1997, the rate of surplus value rose 16%, more than the organic composition of capital (11%), so the rate of profit rose 9%. Since 1997, the US rate of profit has fallen around 6%, because the organic composition of capital has risen nearly 17%, outstripping the rise in the rate of surplus value (3%).



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



I have argued that the profitability of capital is key to gauging whether the capitalist economy is in a healthy state or not. If profitability persistently falls, then eventually the mass of profits will start to fall and that is the trigger for a collapse in investment and a slump.

In 2019, on my measure, US overall profitability fell slightly compared to 2018. Profitability in 2019 is now 5-9% below the post Great Recession peak of 2014 and 10% below the 2006 pre-Great Recession peak. Also, the mass of profits fell 3% in 2019. Indeed, the period from 2014 to 2019 is now the longest period of contraction in US profitability since 1946. That suggests the US economy was already heading into a slump in 2020 before the COVID pandemic hit.

In September 2020, we now know that all the major economies of the world (with the exception of China) will suffer the biggest post-war contraction in real GDP in 2020. But how will that affect the rate of profit in 2020? Assuming a 7% fall in US real GDP, I calculate that we can expect a 25% fall in the rate of profit. In my first graph above I feed that into my 2020 forecast. If correct, the US rate of profit will hit a new post-war low in 2020.

That is on the whole economy measure. If we consider the non-financial corporate sector, a proxy for the productive sector of the economy, then the rate of profit could drop to as low as 3%, based on data from the Federal Reserve – the lowest level since Fed records were available.

