Marx’s law of profitability after Capital

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The Global Marxism series organized by SSK in Korea has delivered a number of important presentations and papers on aspects of Marxist economics. I participated in the second round with a paper on the Economics of Modern Imperialism. Recently Hideto Akashi of Komazawa University, Tokyo returned to the fray with a presentation on Marx’s law of the tendency of the rate of profit to fall.

As is well known in the small circles of Marxian economics, leading Marxist scholar, Michael Heinrich, the author of a detailed account of Marx’s Capital, has argued in the past that Marx’s law of profitability is logically faulty: in particular, it is ‘indeterminate’ in that its key categories do not show that profitability of capital *must* fall. According to Heinrich, “*an increasing organic composition as such is not enough to prove a falling rate of profit”.*

Moreover, Heinrich argues that, in the last decade of his life, Marx ‘probably’ recognized this and so dropped the law as part of his theoretical arsenal and as providing any basis for a theory of crises under capitalism, instead searching for a theory based on the excess of credit. Marx doubted his own law and instead in the 1870s switched to studying the credit system as a possible cause of crises. Heinrich: *“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. […] 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”.* (Heinrich).

When Heinrich first proposed this critique, several authors including myself responded with firm rebuttals, which, in my view, were compelling in refuting Heinrich on both his points: the indeterminacy and Marx’s dispensing with the law. Indeed, I offer a detailed rebuttal of Heinrich’s claim that Marx dropped the law in my recent short book, Engels 200 (see pages 106-111).

But Heinrich’s claims were raised again in questions in the Global Marxism series and Akashi took them up again in his latest presentation. Akashi points out that the most important factor of the law of tendential fall of the general rate of profit is that the rate of profit falls and the quantity of profit increases while, at the same time, the organic composition of capital (ie more investment in means of production relative to employment) is rising. There are some counteracting factors, but these cannot diminish the former sufficiently to cause a secular rise in profitability.

Akashi also argues against Heinrich that after the publication of *Capital,* Marx did not abandon the law. Akashi cites Marxist scholar Kohei Saito who rejects Heinrich's interpretation and points out that as late as 1878, Marx was still considering mathematically how the law of profitability would operate. Indeed, Marx tried to integrate the effect of turnover of capital into his argument for the rate of profit: Marx wrote a short manuscript in 1878 entitled "On the rate of profit, Turnover of Capital, Interest and Discount" by editors of MEGA. (MEGA II/14, Apparat p. 697).

Actually, in writing Capital, Marx had considered earlier the role of the turnover of capital. He discussed this with Engels in 1873 (after the publication of Capital), to ascertain the length of the turnover of fixed capital (see my book, Marx 200, pp56-8).

However, in Akashi's view, Marx's attempts in 1878 to show the impact of the turnover of capital on the rate of profit did not work. (MEGA II/4.2, p. 252, S. 216), which is why Marx abandoned the attempt. In Akashi's view, Marx should have adopted a method of consideration based on *first* equalizing rates of profit to a general one and *then* applying turnover rates to that. *"I supposed Marx should have dealt with capital transfer from industries with a higher organic composition and a slower speed of turnover to those with a lower organic composition and a higher speed of turnover, and then he should have taken the general rate of profit as given."* Once he had a general rate of profit, if he had simulated the equalization of turnover's effect on the general rate of profit, he would have seen the capital transfer from the industry with lower speed turnover to the industry with higher speed turnover.

Actually, there has been further work by Marxist economists to bring the turnover of capital into the coordinates of the law of profitability. Engels himself began that work with his addition in Volume 3 of Capital – see my Engels 200, pp99-101). Modern accounts can be found from Brian Green, Peter Jones and others. Maito, for example, concludes that *"while it (*turnover rate*) does not affect the sense of the trend (*the fall in the rate of profit*), it softens the slope*" in referring to his calculation of the rate of profit in Japan.

But the main point here is that, as late as 1878, Marx was tinkering with the law of tendency of the rate of profit to fall and trying to integrate turnover rates into the equalization of profit rates in different sectors to produce a general 'social' average rate of profit. This confirms the view of many of us that Heinrich is wrong, namely that a) that Marx's law is 'indeterminate' and b) that Marx had dropped the law in the period after Capital Volume One was published and Engels should never have included the law in Volume Three of Capital when he edited it.