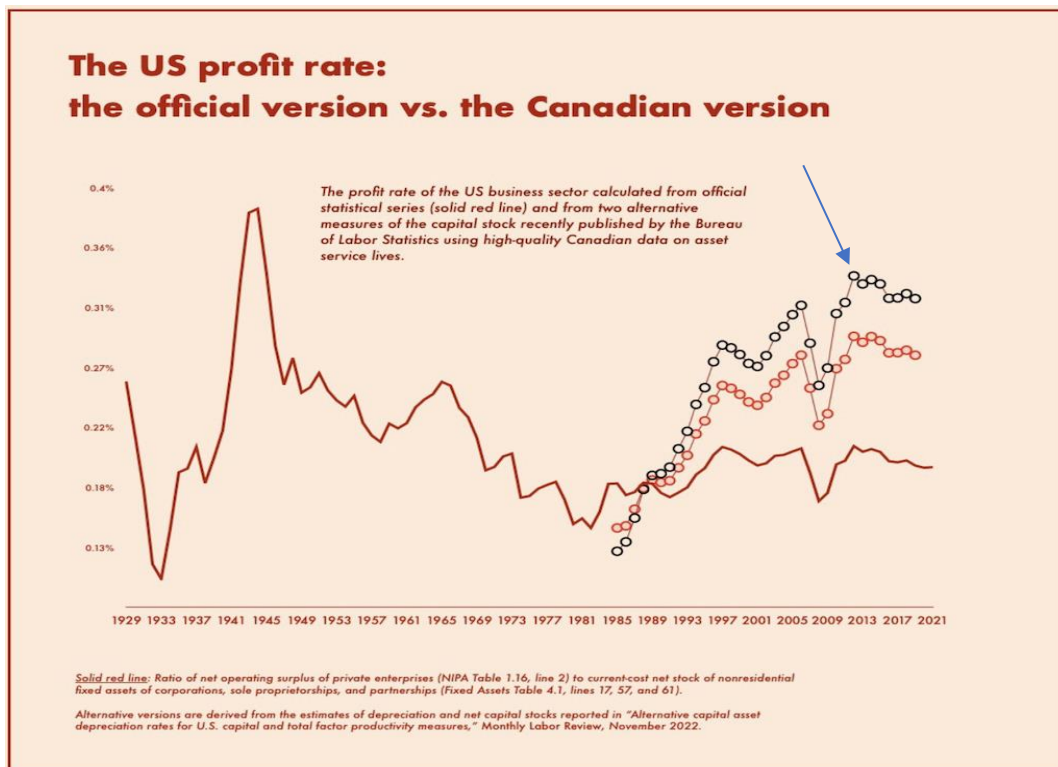


THE JACOBIN ARTICLE ON THE FALLING RATE OF PROFIT (FROP)

I recently received the data used by Mr Ackerman in his article in the magazine Jacobin. [My assumption](#) that he did not adjust the net surplus side by the difference in depreciation was premature. I am therefore writing this article to acknowledge my presumptive error.

My error was not without foundation. I could not account for the trend in his graph reproduced below. The only way I could explain the elevated peak in 2014 was to assume no deductions to the net surplus side had occurred.

Graph 1.

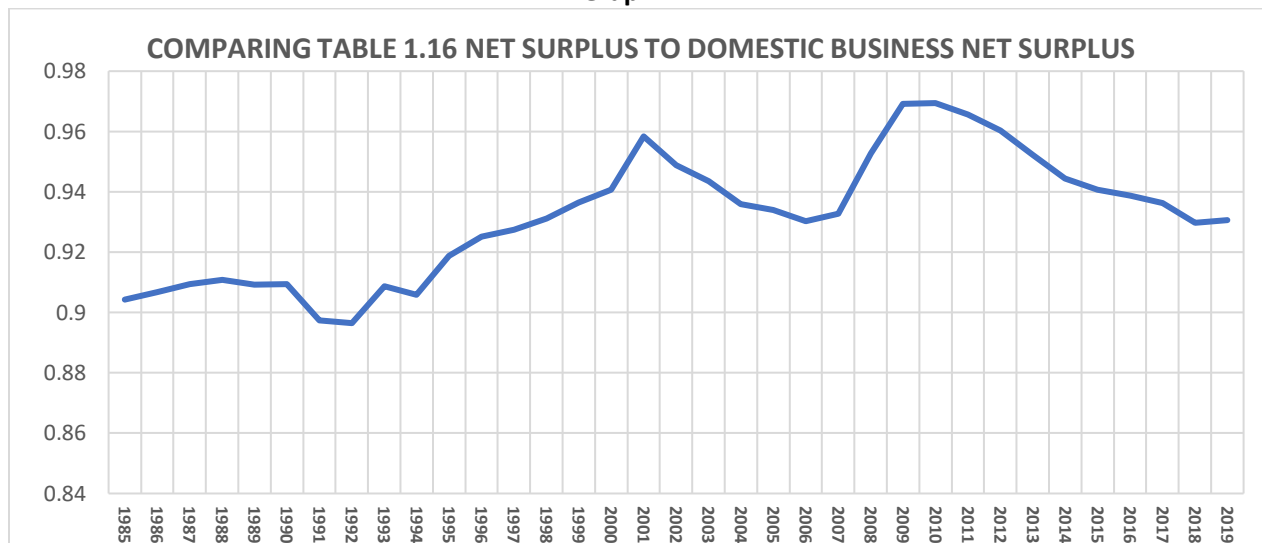


When I received his working paper the matter became clear. To obtain his net surplus he was using line 2 in NIPA Table 1.16. This is not permissible as this numerator includes international profits and transfers. On the other hand the assets over which depreciation is being calculated are limited to domestic assets excluding international assets. Therefore what is being compared is not like for like. Instead he should have used NIPA Table 1.13 where the surpluses only relate to domestically produced surpluses.

As the graph overleaf shows, the difference in the trends of these two surpluses vary significantly over the period in question. There is a 10% variation in the net surplus using table 1.16 compared to table 1.13 and notably, table 1.16 peaks around 2012 similar to the rate of return in the above graph. That said what is interesting about comparing the two tables is the influence of international profits which until around 2014 was very additive to the surpluses realised within the USA itself. This of course relates to the flow of surplus value into the USA courtesy of globalisation. Equally important is that when it diminishes it has a

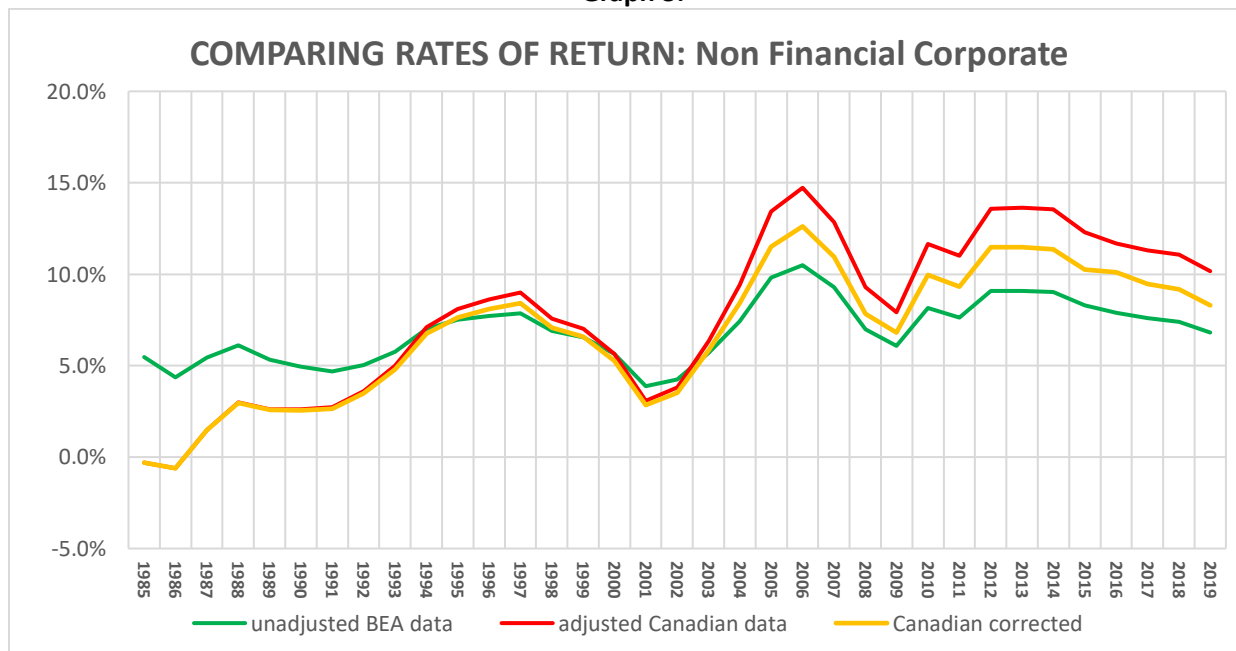
negative effect on the rate of return as shown in the above graph while accelerating the downward trajectory in the graph below.

Graph 2.



I also located an error* in the BLS Canadian data which can be found in the attached spreadsheet. When we add up the difference in depreciation between 1985 and 2019 it amounts to \$7609.34 billions. But when we compare the Asset Values for the BEA in 2019 and the Asset Values found in the BLS data the gap is significantly larger at \$11039.57, billions a difference of \$3430.23. This cumulative error by 2019 is equal to 22.2% of the asset value estimated by the BEA at the time. Worse, over time this error gets larger. (View Column J) Below I have produced 3 graphs, the first is unadjusted and is based on the BEA data for profits and assets, the second relates to the Canadian adjusted figures and the final graph is the graph which corrects for the above error.

Graph 3.



(A brief methodological note for Graph 3 is called for. The profit figure is the pre-tax profit figure found in NIPA Table 1.14 without CCJ and IVA adjustments. To obtain corporate fixed assets I used Fixed Assets Table 4.1. I divided corporate fixed assets into non-residential fixed to obtain its share and then used that share to obtain the Canadian depreciation rates which applied to this sector.)

I assured readers in the previous article that when using Enterprise Profits the rate of return was in fact falling again. And that was the case post 2014 which marked the beginning of the end of globalisation. In all 3 graphs the rate of return between 2014 and 2019 fell by 24.5%, a significant drop. Thereafter, this fall was interrupted by the influx of Covid funds into the coffers of the non-financial corporations either directly in the form of subsidies amounting to at least \$1.1 trillion and more than double that from the pockets of consumers in the form of price gouging. The fall in profitability has now resumed.

And of course were we to include circulating capital which has grown faster than fixed capital post-2014 due to the 'sweating of capital', providing a rate of profit rather than return, that fall would have exceeded 24.5%

Conclusion.

While it is true the rates of return vary in magnitude between assets valued via BEA rates of depreciation and that of the BLS estimates, they do not vary in terms of trend. The trend is the more important observation, as this dismisses theorists such as Ackerman who try to posit a rising rate of profit rather than a falling rate of profit by counterposing differently valued assets. In any case the effect of these differentiated rates of depreciation has decreased over time and will continue to decrease.

We now live in a world of falling profitability in both the West and China. Thus this debate is not an academic one, but one which has very real-world consequences. It will shape the world to come, and it will inform the response by the international working class. The tendency for the rate of profit to fall remains the most important law described by Marx to explain the inner motion of the capitalist mode of production. Support for this law or not, separates revolutionaries from reformists.

* The authors of the BLS article will reject the term 'error', instead seeing the discrepancies being due to adjustments, or what is the same thing, revaluations. I reject revaluations other than the one adjusting for inflation or what is the same thing, the depreciation of money. The reason being that the unadorned gross investment figure as found in the GDP data is at market price, therefore it is real, whereas any adjustments other than for inflation makes the original price unreal.

Brian Green, 25th September 2023.