

IT'S THE RATE OF PROFIT, STUPID

The holy of holies in the temple of capital is the rate of profit. This is the alter on which wage labour is sacrificed. Capitalists only invest to accumulate and to accumulate they need to receive back more in profit over the life of their investment compared to the capital they first invest. If they do, they get richer, and if they don't, they get poorer.

There is only one measure that will tell them if they are getting richer or poorer and whether they are investing in the right place, and that is the rate of profit. The rate of profit is the motive of capitalism and also its compass. Usually measured annually, it tells investors how much profit they are receiving annually for every £1 they have invested. If an investment lasts ten years and the annual rate of profit is 15% then over the lifetime of that investment the total mass of profits will amount £150 for every £100 of capital advanced. Accumulation will be £50

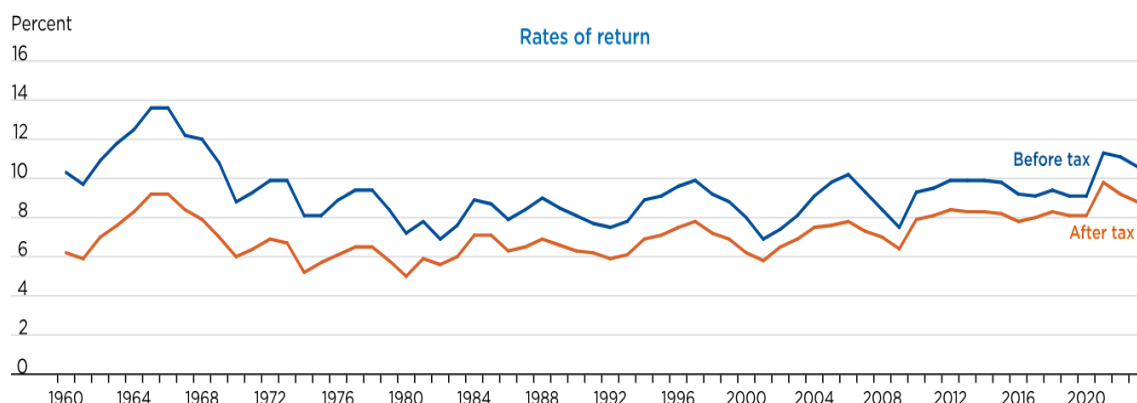
It is only in the field of Marxism that we have the debate on the centrality of of this rate. The capitalists have no such luxury. For them it is not an academic exercise. They live or die by it. They only invest if the rate of profit is positive or estimated to be by their armies of cost accountants. Thus, the horse is profit and the cart is investment. Curiously there are those Marxists who put the cart before the horse by saying it is investment which drives profits. Of course, without investment, that is the purchase of means of production and labour power, there would be no production and therefore no profits.

But that is to confuse the act with the motive. No capitalist invests for the sake of investing as happened in the USSR where investment was a physical not an economic reflex. The only time when making more profit is not the primary consideration, is when capitalists are forced to invest to defend their existing profits from heightened competition.

As we will see in this article both the BEA and the FED keep their eye on profitability. In the case of the BEA its estimates are based on the rate of return which I call the vulgar rate of profit. Unfortunately, many Marxists mimic bourgeois analysts. This bad habit emerged in the 1970s when interest in the rate of profit was revived due to the first post-war global slump. Because it was believed that circulating profit could not be estimated, this form of capital was ignored and swept under the carpet. The BEA estimates and the graph below can be [found here](#).

Graph 1.

Chart 1. Rates of Return and Shares of Net Value Added for Nonfinancial Corporations, 1960-2023

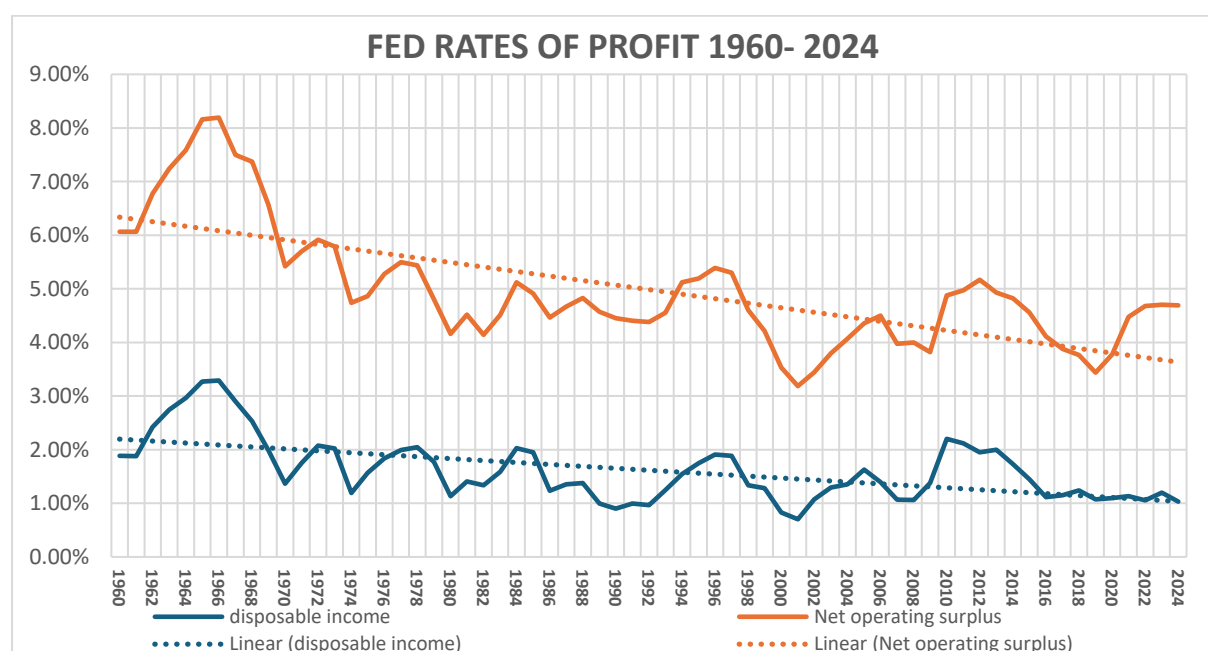


In this graph we see the peaks and troughs in the rate of return which marks the alpha and omega of the business cycle or industrial cycle as Marx called it. The business cycle is driven by investment which falters when profitability peaks resulting in a deceleration in the circuit of capital, or as it is often called, the rate of turnover of capital. And when that happens, more circulating or working capital is needed to cover the extra days between income and outlays while companies must wait longer for profits to be realised through sale. The result is a fall in the relative rate of profit indicated by the six troughs found in the graph above.

The FED provides the most comprehensive set of data for the non-financial corporate sector. It is the largest sector where a reliable rate of profit can be constructed. And it gives us an insight into how the capitalists themselves estimate their rate of profit. I have attached *Table S.5.a Nonfinancial Corporate Business*. Line 150 titled *Total liabilities and net worth* is instructive. This forms the denominator for the rate of profit in corporate profit reports. The reader may ask, why use total liabilities rather than total assets? Well in this case it does not matter because being a T account, assets and liabilities must balance. Thus, total liabilities and equity (net worth) equal total assets found on line 117.

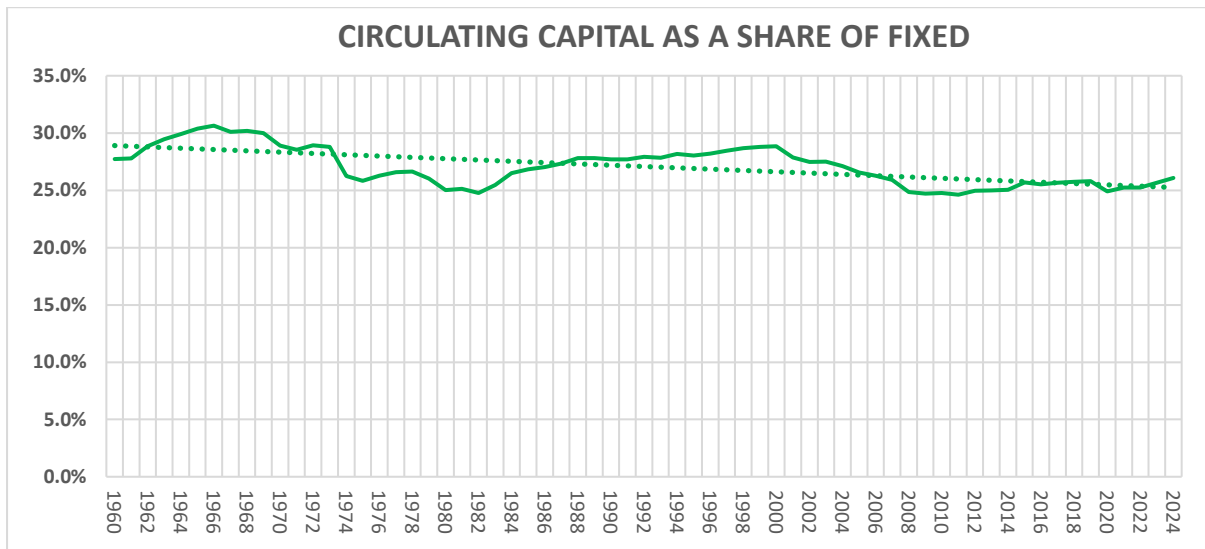
In the case of the two graphs below I have used line 150 as the total capital in the rate of profit, which also includes in this case the sum of financial capital, that is income earning investments outside the corporation. I then used the net operating surplus to construct the brown graph. More interesting is the blue graph. Here the numerator is found on line 31 titled *Equals: Disposable income, net*. This is the net surplus reduced by interest, dividends, tax and rent. It is the net sum left in the corporation for future investments less contingencies. In other words, the blue graph is the potential rate of accumulation using internally generated funds. This rate of accumulation has fallen from around 3% in the 1960s to 1.0% in the 2020s. This explains two things, the overall corporate investment slowdown alongside the growth in debt needed to compensate for the dearth of internal funds. Thus, the blue rate of profit is a valuable rate because it is most proximate to the rate on which individual corporations on average base their investment or take-over decisions and which informs longer run share prices. (We note the rate of profit measured by the net surplus has fallen more quickly.)

Graph 2.



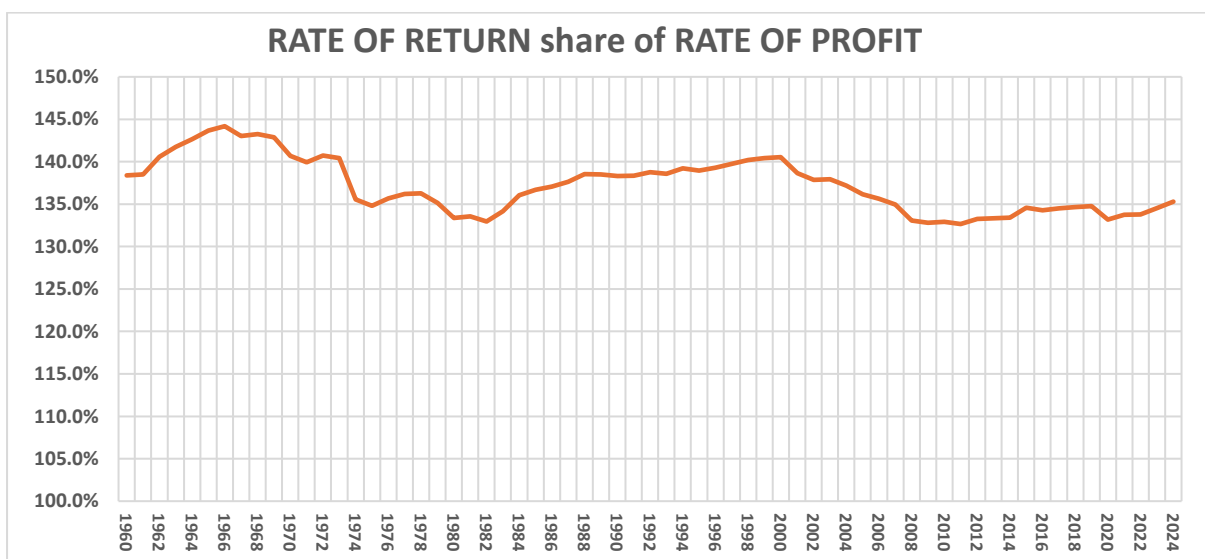
In Graph 3 we return to Marxian measures. Here the denominator is fixed and circulating (or fluid as Marx added) capital. The graph below shows the relative size of circulating capital. There are two observations which are in order. Firstly, as expected there is a long-term decline which reflects the substitution of labour (part of circulating capital) by machinery and equipment. Secondly, the greater volatility of circulating capital. Its peaks tend to coincide with the peaking of the business cycle in terms of the rate of profit, and its troughs tend to coincide with the onset of recession.

Graph 3.



This has an important effect on the rate of profit. The relative growth in the mass of circulating capital relative to fixed tends to increase total capital faster thereby exerting a depressive effect on the rate of profit, and conversely a relative fall in circulating capital has an uplifting effect. In fact, during periods of slowdown and recession, the fall in circulating capital partly caused by the fall in total wages, acts as a counter-vailing force to the tendential fall in the rate of profit. This effect can be seen in the graph below which accurately tracks the business cycle. For all these reasons, to provide an accurate rate of profit, circulating capital must be included.

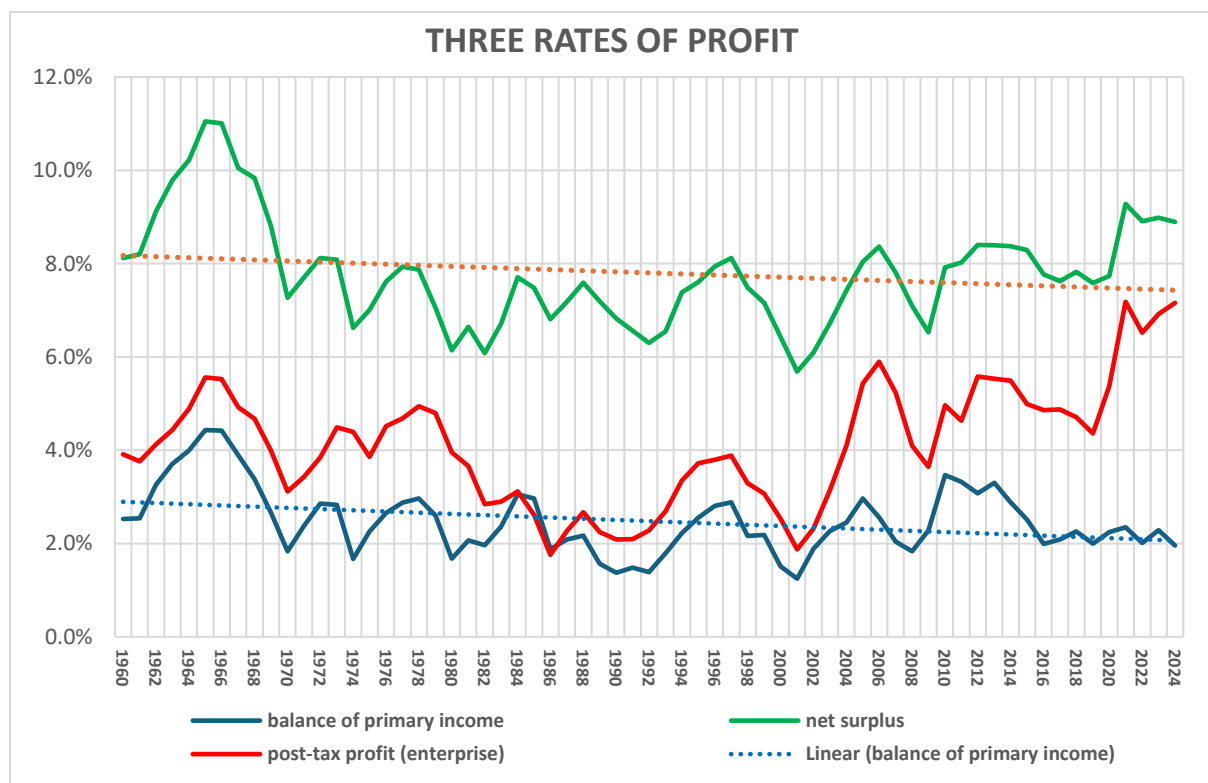
Graph 4.



Which brings us to the actual rates of profit based on fixed and circulating capital. Below are three graphs based on fixed and circulating profits. The green one is important because it is most closely connected to the rate of surplus value and therefore the degree of exploitation. The red graph is the enterprise rate of profit. That is the rate after paying interest, rent and taxes. It is the one most likely to influence investment decisions. The blue graph includes additional payments as described above which includes the largest deduction, net dividends paid.

Of all the rates of profit the blue graph has fallen the most as evidenced by trend. Thus, while the rise in the post-tax rate of profit may have made investment more attractive, the ability to finance these investments using internal funds is diminished requiring more borrowing. However, here the internal rate of accumulation is 2% compared to 1% in Graph 2 because it excludes the accumulation of financial assets. It includes only the potential accumulation of productive assets.

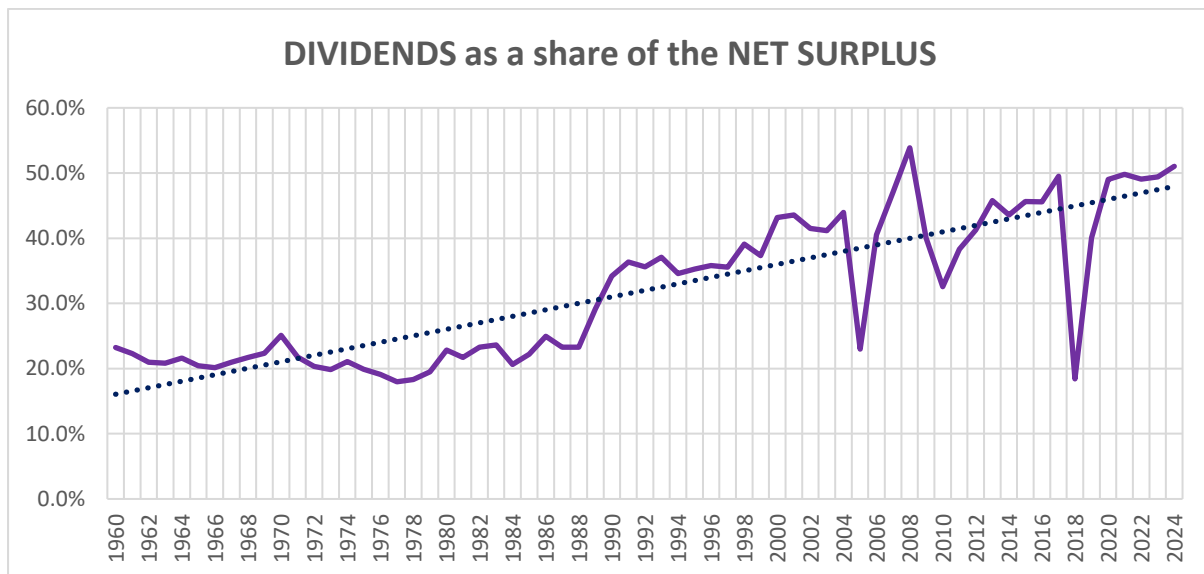
Graph 5.



Of note is the large gap between the red and blue graph since the Pandemic. The enterprise rate of profit grew but the retained rate of profit fell, then plateaued. This was due to dividends increasing as relative investment fell. Although the data from the FED does not separate share buy backs from dividends the sheer magnitude of dividends, approaching half of the entire surplus, suggests this figure includes share buy backs. The growth of dividends as a share of the net surplus can be seen in the graph below.

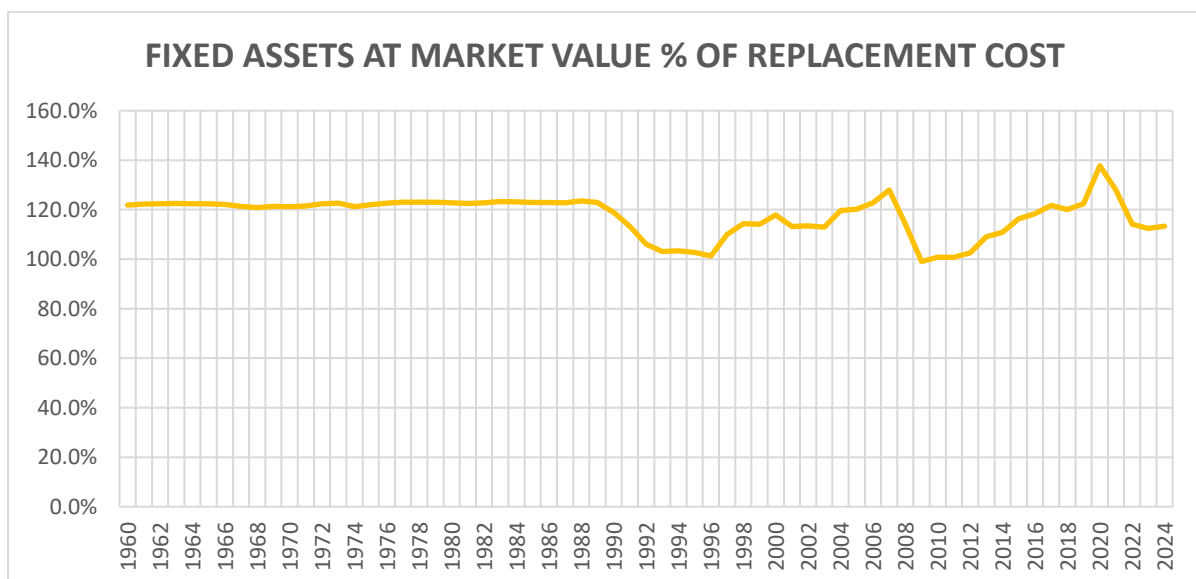
It is useful to understand the mechanisms whereby these Covid funds both improved the rate of profit and dividends. There were direct subsidies to corporations, but also through price gouging, most of the benefits to consumers ended up in the coffers of the corporations. They then used these ill-gotten gains to fatten their shareholders by converting these profits into dividends including share buybacks. Thus, most of the subsidies ended up with corporate shareholders, provoking the cost of living crisis.

Graph 6.



There is another tangential matter I would like to discuss. On numerous occasions Dr William Jefferies has criticised Michael Roberts and me for using the BEA estimates for fixed assets. He has claimed these are not based on replacement or reproduced costs but are fictitious derived from discounted cash flows. Yes, it is true that fixed assets can be based on discounted cash flows as well as costs. The FED does use discounted cash flows which is why it calls its fixed assets, *Fixed Assets at Market Value*. In Graph 7 I have compared the fixed assets found in FED Table S.5.a (lines 121-123) to the estimates used by the BEA in Fixed Assets Table 4.1. Until 1990 and the age of financialisation proper the ratio held at 120% then it fell with the recession at the end of the 1980s, then fell again marginally after the dotcom bubble burst, then it fell precipitously after the financial crash in 2008 before rising to a new peak during the Pandemic as the transfer of wealth in the form of Covid assistance from the US treasury into private hands took place. I hope this ends the criticism. The only inference worth noting is that using market value instead of replacement cost, tends to reduce the average rate of profit.

Graph 7.



Conclusion.

There are many iterations of the rate of profit. The only valid one is based on fixed and circulating capital. However, the way the capitalists calculate their rates of return cannot be dismissed. The way they calculate their ROI or rate of return is not dissimilar to the Marxian rate of return as it is based on the lifetime total cost of the project. But once the investment is made and the asset is transferred to the balance sheet it is sometimes revalued based on the expected discounted cash flow.

Thus, the return on proposed individual investments is treated differently to the return on total balance sheet assets or what is the same thing in terms of value, liabilities and equity. This is the rate used to value the corporation as a whole and to measure its performance against other similar corporations. All these various rates have real world consequences. The Marxian rate establishes the underlying health of a sector or the whole economy while the immediate bourgeois rates of return drives investment and acquisition decisions. In the end they are all connected through the rising composition of capital which ultimately exerts a negative pull on all of them.

Brian Green, 15th July 2026.