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HOW NOT TO WRITE ABOUT THE RATE OF PROFIT: A REPLY TO DAVID HARVEY

It is hard to think of any living writer who has made a greater contribution to Marxist political economy than David Harvey. We can see this in his broad attempt to widen Marxist social theory to take space properly into account, forming a new “historical-geographical materialism”; in his work, *The Limits to Capital*, one of the most important products of the 1960s and 1970s generation’s engagement with Marx’s *Capital*; in his hugely influential critical return to the classical Marxist theory of imperialism in *The New Imperialism*; and, finally, in his online lectures and book commentaries on *Capital*.¹

So it is a real pity that he has chosen to write so negatively—and, to be frank, so poorly—about the tendency of the rate of profit to fall (TRPF) in different versions of a paper that is due to be published but that is already making the rounds online (Harvey, 2015a). Harvey is intervening in a debate that has been going on among Marxist political economists for some time but that appears to be hotting up. There seem to be two reasons for this. First, the publication of the manuscripts of the third volume of *Capital* in the *Marx-Engels Gesamtausgabe (MEGA²)* has given rise to the entirely spurious argument that Marx abandoned the theory of the TRPF after writing the main text in 1864-5 (it is typical of Harvey’s scattergun approach that he welcomes this argument while declaring his ignorance of German prevents him from taking a stand on the scholarship: Harvey, 2015a: 5).²

Second, and much more importantly, we have a (continuing) crisis to explain. Marxist political economists are divided over whether the profound, systemic crisis of capitalism that exploded in 2007-8 has to be understood starting from the TRPF or, typically, through some combination of underconsumptionism and the kinds of theories of the financialisation of capitalism that have become current in recent years. One reason why this debate is so important is that even the more intelligent bourgeois economists acknowledge that the recovery from the Great Recession has revealed that something has gone badly wrong with capitalism. As ultra-mainstream a figure as Lawrence Summers (Treasury Secretary under Bill Clinton, chief economic adviser to Barack Obama during his first administration) has revived the old Keynesian theory that advanced capitalism is liable to undergo “secular stagnation” thanks to a chronic shortage of effective demand (Teulings and Baldwin, 2014). The TRPF offers one way in which Marxists can offer their own take on this argument, underconsumptionism another.

¹ For earlier assessments of Harvey, see Callinicos, 2006; Choonara, 2011.

² See Heinrich, 2013, and the criticisms in Callinicos, 2015: 284-285. Heinrich also argues that Marx’s theory is indeterminate—a different proposition altogether. See, in rebuttal, Carchedi and Roberts, 2013.

Harvey's trajectory

Harvey's recent paper places him more firmly than ever in the second camp. Despite the claim that his own theory of crisis remains the one mapped out in his *Limits to Capital* in 1982 (Harvey, 2015a: footnote 34), his writing on crisis has in fact exhibited a fairly definite trajectory in this direction. It is true that the sections of *Limits* dealing with the TRPF already stress that the law is, in Harvey's view, incomplete and lacking in rigour (Harvey, 2006: 176-189). However, he acknowledges, "The actual processes regulating technological change under capitalism are indeed systematically biased towards variable-capital as opposed to constant-capital saving", the very process that Marx sees as responsible for the TRPF (Harvey, 2006: 183). While he notes Okishio's famous 1961 challenge to Marx's law, Harvey counters that the mechanisms that Okishio relies on are in actuality "the kind of adjustment that will more likely be forced through in the course of crises than something achieved in the normal course of events" (Harvey, 2006: 185).

While Harvey does not believe, even at this stage, that Marx's TRPF offers "a viable synthetic model of the contradictions of capital", he claims that Marx's discussion reveals how the competitive processes of accumulation tend to disrupt future accumulation and any possibility of "balanced growth" of capitalism (Harvey, 2006: 188-189). The sense in which this is disruptive is given by what Harvey dubs his "first cut" theory of crisis. He writes:

Marx's falling rate of profit argument does convincingly demonstrate that the capitalists' necessary passion for surplus-value producing technological change, when coupled with the social imperative 'accumulation for accumulation's sake', produces a surplus of capital relative to opportunities to employ that capital. Such a state of over-production of capital is called the "overaccumulation of capital" (Harvey, 2006: 192).

The problem though, is that the notion of overaccumulation is a rather ambiguous one, and, as deployed by Harvey in *Limits* and in his later writing, it permits two quite different interpretations. The first is that the accumulation of capital runs ahead of the capacity of the capital to generate profit, potentially choking off further accumulation. After all, if we accept that capital is value set in motion to expand, why would any capitalist care that there was "too much" capital provided that it could generate a high rate of profit? Harvey says as much in *The New Imperialism*, writing that "the theory of overaccumulation identifies the lack of opportunities for profitable investment as the fundamental problem" (Harvey, 2005: 139). This appears to be simply another way of talking about falling profitability.

The second interpretation of overaccumulation, though, is to move away from an emphasis on profitability towards one on consumption. At the time he wrote *Limits*

Harvey resisted drawing strongly underconsumptionist conclusions. He argues, “In the world of appearances, falling rates of profit and a glut of commodities are both surface representations of the same underlying problem” (Harvey, 2006: 196). Instead his main focus was to seek to extend his theory of crisis by beginning to integrate more concrete determinations—the financial system and the geographical aspects of capitalism—in his “second cut” and “third cut” theories of crisis. However, this approach has tended to fade in his later writing, in favour of a more traditional underconsumptionist position, justified by a focus on the analysis in the second volume of *Capital* of the formal possibility of the circuit of capital breaking down at various points.

This is particularly evident in *Enigma of Capital*. There are many of Harvey’s virtues on display in this book, for instance the superb chapter “The Geography of It All”. But when he comes to discuss the causes of crises he references a whole range of theories, including the falling rate of profit, profit-squeeze theories and underconsumptionism. He then seeks to draw together these disparate positions:

There is, I think, a far better way to think about crisis formation. The analysis of capital circulation pinpoints several potential limits and barriers. Money capital scarcities, labour problems, disproportionalities between sectors, natural limits, unbalanced technological and organisational changes..., indiscipline in the labour process and the lack of effective demand head up the list... When one limit is overcome accumulation often hits up against another somewhere else (Harvey, 2010: 117).

In this reformulated approach to crisis Harvey is entirely dismissive of the rising organic composition of capital as a cause of falling profitability, writing that “it is hard to make Marx’s theory of the falling rate of profit work when innovation is as much capital or means of production saving...as it is labour saving” (Harvey, 2010: 94).

This leaves the resulting “capital surplus absorption problem” (Harvey, 2010: 45) to carry the weight of explanation:

It is now well understood that “consumer sentiment” and “consumer confidence” in the more affluent societies are not only keys to endless capital accumulation but are more and more the fulcrum upon which the survival of capitalism depends... What is called a crisis of “underconsumption” results when there is not enough effective demand to absorb the commodities produced (Harvey, 2010: 107).

Harvey does include as a source of effective demand “capitalist consumption”, either of luxury goods or of the means of production, but even here the propensity to invest

is often envisaged in Keynesian terms, emphasising “uncertainty”, “faith” and “confidence” as driving or retarding demand (Harvey, 2010: 111, 114).

Harvey’s recent paper marks a further step in this direction. He writes: With rising effective demand backed by unfulfilled needs, wants and desires, employment and surplus-value production could even increase... 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 (Harvey, 2015: 8-9).

Quite aside from the obvious muddle between the rate of profit and its mass, the supposed indeterminacy of profit rates implies that any tendency towards overaccumulation must be relative to consumption rather than profitability.

Harvey’s method and Marx’s

No doubt we can all deepen our understanding of capitalism thanks to the pursuit of different, sometimes conflicting perspectives on the crisis by Marxist political economists. But this does not justify Harvey’s blunderbuss approach to the TRPF, which he seeks to discredit by throwing everything but the kitchen sink at it.

Harvey says that he is doing this because the TRPF occupies “an iconic position within the Marxist imaginary” (Harvey, 2015a: 21). But this is quite untrue: for much of the history of Marxist political economy the TRPF was marginal. What Michael Howard and John King write of Marxist political economy in the 1920s can be applied to the entire first third of the 20th century, a heroic era dominated by giants such as Hilferding, Luxemburg, Lenin and Bukharin: “One common strand unites these otherwise disparate schools. This is the almost total neglect of volume III of Marx’s *Capital*, and in particular of the tendency identified there of the rate of profit to decline” (Howard and King, 1989/1992: I, 316). Harvey also takes contemporary Marxists to task for ignoring the turnover of fixed capital, which Marx described as “one of the material foundations for the periodic cycle [*Krisen*]” (Marx, 1978: 264). It is true that, among post-1960s Marxist political economists, Harvey, together with Gérard Duménil, deserves much credit for highlighting the significance of the turnover of fixed capital and criticising Marx for failing to integrate it into his theory of profit (Duménil, 1978: 281ff.; Harvey, 2006: 185-188). But the Marxists of the early 20th century were well aware of the significance of the turnover of fixed capital. It forms, for example, the centrepiece of Evgeny Preobrazhensky’s interesting theory of crisis published as the Great Depression set in in 1931 (Preobrazhensky, 1985).

Even when Marxist political economy revived in the 1970s, the kind of profit squeeze theory—according to which the rate of profit falls because well organised workers used full employment to increase their wages – with which Harvey himself has

expressed some sympathy was a strong competitor with explanations relying on the TRPF.³ But it is true that the TRPF has enjoyed powerful revival in recent years, starting with Bob Brenner's non-standard version of the theory, which was first published in 1998, and which devotes much attention to demolishing profit-squeeze explanations (what he calls supply-side theories).⁴

There have already been very effective responses to Harvey from Michael Roberts and Andrew Kliman (Kliman, 2015a and b; Roberts, 2015). Rather than repeat their objections, in this paper we focus on the question of method—both Harvey's and Marx's. Harvey proceeds through a blizzard of counter-examples. Sometimes these seem to constitute exceptions not to the TRPF but to the labour theory of value itself. Take, for example, this passage, where Harvey is warning us against relying on data calculated in market prices as evidence of trends in value relationships:

There is, Marx notes, nothing to prevent not only a quantitative but a qualitative divergence between market prices and values such that honour, conscience, raw land, carbon emissions futures and god knows what can be traded as if they are commodities when they clearly are not. 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 centres of capital accumulation. Successful lobbying can raise profits substantially in certain sectors without investing anything in production (Harvey, 2015a: 15).

It is hard to know what Harvey is saying here. He knows perfectly well that Marx was aware of such non-standard cases. Indeed in a note to this passage he refers to Marx's explicit acknowledgement that prices may not presuppose values:

The price form, however, is not only compatible with the possibility of a quantitative incongruity between magnitude of value and price, ie between the magnitude of value and its own expression in money, but it may also harbour a qualitative contradiction, with the result that price altogether ceases to express value, despite the fact that money is nothing but the value form of commodities. Things which in and for themselves are not commodities, things such as conscience, honour, etc, can be offered for sale by their holders, and thus acquire the form of commodities through their price. Hence a thing can, formally speaking, have a price without having a value. The expression of price in this case is imaginary, like certain quantities in mathematics. On the other hand, the imaginary price form may also conceal a real value relation or

³ See the classic statement of profit squeeze theory in Glyn and Sutcliffe, 1972, and examples of Harvey's qualified support for the theory in Harvey, 2010: 65-6; Harvey, 2014: 65.

⁴ Brenner, 1998. See, inter alia, Brenner, 2006, Harman, 2009, Callinicos, 2010, Kliman, 2012, Carchedi, 2011 and 2014, Roberts, 2012 and 2013.

one derived from it, as for instance the price of uncultivated land, which is without value because no human labour is objectified in it (Marx, 1976: 197).

Marx makes this point in Part 1 of *Capital*, I. Rather than deal with these apparently aberrant cases there, he proceeds to develop his analysis of the capitalist process of production as constituted by the creation of value by labour and the appropriation of part of it (surplus-value) by capital. It is only (as, once again, Harvey knows as well as anyone) towards the very end of *Capital*, III, in Part 6, that he proceeds to uncover the “real value relation” underlying the “imaginary price form” that is the price of land, showing that the latter is simply the capitalised rent and that rent itself is a portion of the surplus-value appropriated by the landowner. Marx’s refusal directly to confront the problem of land and rent when he first presents his value theory at the beginning of *Capital*, I, is entirely characteristic of his method and it is this method that Harvey systematically fails to address. Marx goes on in *Capital*, III, Part 7, “The Revenues and Their Sources”, to address the way in which the fragmentation of surplus-value into profit, interest, rent, etc, and the process of competition encourage economic actors to see the process of value creation as autonomous of production and crucially dependent on developments in circulation. Anticipating Harvey’s objection, Marx notes one reinforcing factor encouraging this appearance is “profit on alienation, which depends on cheating, cunning, expertise, talent, and a thousand and one market conjunctures” (Marx, 1976: 969). The law of value asserts itself only at the social level:

In this quite specific form of value, labour is valid as social labour; on the one hand the division of this social labour and the reciprocal complementarity or metabolism of its products, subjugation and insertion into the social mechanism, is left to the accidental and reciprocally countervailing motives of the individual capitalist producers. Since these confront one another only as commodity owners, each trying to sell his commodity as dear as possible (and seeming to be governed by caprice even in the regulation of production), the inner law operates only by way of their competition, their reciprocal pressure on one another, which is how their divergences are mutually counterbalanced. It is only as an inner law, a blind natural force vis-à-vis the individual agents, that the law of value operates here and that the social balance of production in the midst of accidental fluctuations (Marx, 1976: 1020).

These are, for someone as familiar with *Capital* as Harvey, elementary points. But he continually seems to invite such rebuttal. Thus he cites the “massive increase in the global labour force” as evidence contradicting the TRPF (Harvey, 2015a: 18). But this involves a double confusion. In the first place, growth in the size of the waged workforce represents (other things being equal) an increase in the *mass* (or absolute quantity) of surplus-value created by these workers. To counteract the TRPF, however, an increase in the *rate* of surplus-value (surplus-value over variable capital) would be necessary. Secondly, the rate of profit is, of course, surplus-value over

constant plus variable capital; therefore the increase in the rate of surplus-value would have to be big enough to compensate for any increase in constant capital over variable capital (the organic composition of capital). Kliman shows thoroughly how important these distinctions are (Kliman, 2015b). But you don't have to be a Marxist to have at least a rough idea of the kind of contrast Harvey steamrollers over. Thus Paul Krugman wrote recently: "Corporate profits have soared as a share of national income, but there is no sign of a rise in the rate of return on investment" (Krugman, 2015).

Rather than prolong this wearisome catalogue, we would like to interrogate the conception of theory underlying Harvey's critique. It is deeply empiricist: the world is complex, and theory has to pick its way selectively through it, making constant adjustments to take into account the shifting combinations of relevant factors. Elsewhere he cites Henri Lefebvre and Gilles Deleuze in support of his conception of capitalism as "a socio-ecological totality", "an '*assemblage*' of elements in dynamic relations with each other", where "the inter-relations are fluid and open, even as they are inextricably interwoven with each other", a point he reiterates in his reply to Kliman (Harvey, 2010: 128; Harvey, 2015b). Harvey acknowledges that Marx uses a different method but he misrepresents the nature of this method. He attributes to Marx an essentially deductivist conception of theory where capital represents generality:

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 (Harvey, 2015a: 3-4).

Harvey here repeats the interpretation of Marx's method first given in his 2011 Deutscher Memorial Lecture. There he argues that Marx in his subsequent economic writings was "rigidly" guided by a passage from the 1857 Introduction to the *Grundrisse*: "Thus production, distribution, exchange and consumption form a regular syllogism [for the political economists]; production is the generality, distribution and exchange the particularity, and consumption the singularity in which the whole is joined together. This is admittedly a coherence, but a shallow one" (Marx, 1973: 89). According to Harvey, "he sticks as closely as he can to the bourgeois conception of a law-like level of generality—of production—and excludes the 'accidental' and social particularities of distribution and exchange and even more so the chaotic singularities of consumption from his political-economic enquiries" (Harvey, 2012: 10).

Apart from drawing a distinction between universality and generality where Marx uses the same German word (*Allgemeinheit*) for both, Harvey badly misreads the role the concept plays in the *Grundrisse* and to some extent in later writings. As numerous

commentators have pointed out, in the plans for his critique of political economy that Marx makes at successive points in the *Grundrisse* (Marx, 1973: 264, 275) Marx does seek to use universality (as we translate *Allgemeinheit* here) in order to conceptualise capital. But this is universality as it is understood by Hegel—that is a dialectical triad that starts from abstract universality, which then differentiates itself into particularity, but re-establishes a concrete unity as singularity.⁵ So Harvey’s suggestion that Marx’s conceptualisation of capital “excludes the ‘accidental’ and social particularities of distribution and exchange and even more so the chaotic singularities of consumption” involves a basic misunderstanding of both Marx and Hegel. Marx does initially seek to concentrate on the moment of abstract universality, what he calls in the *Grundrisse* “capital in general”, though even here it is understood as a complex totality involving production, circulation, and their unity—a rough sketch of what eventually becomes the three volumes of *Capital*. But in the tortuous process of revision across successive manuscripts, Marx finds himself incorporating into the analysis of “capital in general” more and more, not just of what he had initially intended to cover under capital as particularity (accumulation and competition) and as singularity (credit and the money market), but also material relating to the later books of his original 1858-9 six-book plan for his critique of political economy—“*capital, landed property, wage-labour; the State, foreign trade, world market*” (Marx, 1971: 19). This strenuous process of conceptual reordering and expanding content culminating in *Capital*—entirely ignored by Harvey both in his Deutscher Lecture and in his commentaries on *Capital*—make his attempt to interpret Marx’s method on the basis of one sentence written at the very start of this process intellectually indefensible.⁶

Responding to an earlier version of this criticism, Harvey writes:

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 (Harvey, 2015a: 3).

Harvey’s understanding of universality, particularity, and singularity is, as we have already noted, idiosyncratic. But it is simply untrue that Marx excludes “distributional and market arrangements” from *Capital*. On the contrary, their importance grows as we move through the three volumes. Harvey himself notes: “The significance of workers as consumers, and hence as agents for the realization of the value of commodity capital, is in fact an important emergent theme throughout the whole of Volume II” (Harvey, 2013: 301). As Marx makes clear from the very start of the

⁵ See, for example, Uchida, 1988, Moseley, 2013, Pradella, 2015.

⁶ For much more on this see Callinicos, 2014, chs. 1-3.

manuscript, *Capital*, III, is dominated by the fragmentation of the surplus-value into discrete forms of income appropriated by different types of economic actor (industrial, commercial, and money capitalists, landowners etc) and obscuring the origins of this surplus-value in exploitation in the process of production. Accordingly, determinations that he had previously excluded from the analysis of capital in general force their way into the analysis. Competition is invoked to explain the formation of the average rate of profit (chapter 9), the constitution of market value (chapter 10, where—*pace* Harvey—Marx drops the assumption that supply equals demand), and the TRPF itself (chapter 13). And, of course “the credit system” pervades the bulky mass of Part 5, about which Harvey has written so well, above all in *The Limits to Capital*.

So the interesting question, as in the case of the price of land discussed earlier, is not so much that Marx excludes “distributional and market arrangements”, but his reasons for bracketing them at the beginning of *Capital* and introducing the categories pertaining to them at different points of the subsequent analysis. But this question is invisible in Harvey’s discussions of *Capital*. His very forced reading of the passage from the 1857 Introduction to the *Grundrisse* leads him essentially to treat Marx’s conception of theory as the same as Ricardo’s. As Marx himself discusses at length in the *1861-63 Manuscript*, Ricardo puts forward certain abstract theoretical propositions—essentially his theory of value, profit and rent—and then seeks to deduce the concrete characteristics of capitalist economies. Ricardo’s failure to deal with counter-examples—most importantly his own demonstration that wage increases may lead to a fall in the price of commodities produced by capitals with high organic compositions—led to the gradual abandonment of the labour theory of value even by his own followers.⁷

For Marx, Ricardo’s failure was as much methodological as substantive. He identifies a key flaw as Ricardo’s deductivist conception of theory. Thus he notes that Ricardo assumes the existence of an average rate of profit:

He presupposes *a general rate of profit* or an *average profit of equal magnitude* for different capital investments of equal magnitude, or for different spheres of production in which capitals of equal size are employed—or, which is the same thing, profit in proportion to the *size* of the capital employed in the various spheres of production. Instead of *postulating* this *general rate of profit*, Ricardo should rather have examined in how far its *existence* is in fact consistent with the determination of value by labour-time, and he would have found that instead of being consistent with it, *prima facie*, it *contradicts* it, and that its existence would therefore have to be explained through a number of intermediary stages, a procedure which is very different

⁷ Callinicos, 2014, ch. 2.

from merely including it under the law of value (Marx and Engels, 1975-2005, 31: 401).

This criticism introduces a radically different conception of method from Ricardo's (which Harvey mistakenly attributes to Marx)—a method of successively introducing more concrete determinations that offers a way of addressing counter-examples by integrating them into the theory in a way that is explanatory rather than merely descriptive. So Marx starts from the rigorous abstractions of value theory in *Capital*, I, Part 1, "Commodities and Money", not because he intends to ignore most of the complications that Harvey cites against him, but to allow him to state the theory of surplus-value in its most general form and then to posit a series of concepts (labour process/valorisation process, variable/constant capital, absolute/relative surplus-value, wages, accumulation, the concentration and centralisation of capital, the industrial reserve army) that allow him to articulate the structure of the capitalist process of production as constituted by exploitation and class struggle. More determinations are posited in *Capital*, II, conceptualizing the process of circulation, before Marx confronts what he calls the *Gesamtprozess*, the total process, in which the unity of production and circulation is posited in *Capital*, III. He takes great care about the placing of new determinations: to return to the case of the average rate of profit, this appears only in *Capital*, III, Part 2, where, after considering the global relationship of capital and wage-labour in *Capital*, I, and, at best, in *Capital*, II, the differences between types of capital (money, commercial, and productive) and sectors (departments I and II), Marx posits the differentiation of capital into individualised "many capitals" each seeking to maximise its share of the aggregate surplus-value extracted in production. Particular determinations are explained by their specific place in the ordering of categories, and in turn make their own contribution to the overall explanation of the laws of motion of the capitalist mode of production that Marx offers in *Capital*.⁸

Understanding this method is of more than philological or philosophical interest. It allows us to avoid the kind of straw man that Harvey erects in the following passage:

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 (Harvey, 2015a: 4).

The only figure Harvey gives as an example of a TRPF theorist who affirms that "financialisation had nothing to do with the crash of 2007-8" is Andrew Kliman, a claim that the latter robustly denies (Kliman, 2015a), and we suspect there are no

⁸ Callinicos, 2014, ch. 3.

other credible candidates. But in any case, Marx's failure to include "questions of distribution (in particular the role of finance, credit and interest-bearing capital) in his statement of the law of falling profits" doesn't mean that he thought these matters weren't important in explaining crises. It was a consequence of the method outlined above. The average rate of profit is the ratio of aggregate surplus-value and aggregate capital. It is therefore posited (in Part 2 of *Capital*, III) prior to the fragmentation of surplus-value into industrial and commercial profit, profit of enterprise, interest, rent, which starts in Part 2 with Marx's analysis of commercial capital. The TRPF (outlined in Part 3) is a theory about the average rate of profit so of course it abstracts from "finance, credit and interest-bearing capital". These are the subject of Part 5, starting from the separating off of interest as a specific form of surplus-value, but developing into a much more extensive (though unfinished and fragmented) discussion of the credit system and financial crises. Operating in this way through "intermediary stages" allows Marx to show how the TRPF has its roots in the process of production: the organic composition of capital, whose rise is responsible for the falling rate of profit, as Ben Fine and Lawrence Harris point out, "exists within the sphere of production abstracting from exchange and distribution", whereas the value composition of capital, based on the current values of means of production and wage goods, represents a more concrete level of the analysis, since it "is only formed on the basis of the complex articulation of production, exchange and distribution" (Fine and Harris, 1979: 61). But what is clear, moreover, that Marx sees the cycle of financial bubble and panic as playing an important role in relation to the TRPF: specifically, what he calls (following the Banking School theorist John Fullarton) the "destruction of capital" in financial crashes plays an important role in reducing the total amount of capital in the system and thereby permitting a recovery in the rate of profit.⁹

This relationship is obscured in Harvey's recent work by his decision to remove his discussion of *Capital*, III, Part 5, to his commentary on *Capital*, II, which dislodges Marx's treatment of finance from its place in the overall architectonic of his work. This is of a piece with Harvey's broader discussion of Marx on crises, whose general thrust is to highlight the variety of causes that he seems to assign to them. It is certainly true that Marx has a multi-causal explanation of crisis. Indeed Harvey is far from being the first to assert this—Ernest Mandel said as much back in the 1970s.¹⁰ But recognising this does not require us to embrace indeterminacy in the way in which Harvey encourages us to. One can instead try to identify the places the different determinations of crisis occupy in *Capital*: (i) the formal possibilities inherent in the commodity and the credit system and (ii) the interaction between wages and the industrial reserve army in Volume I; (iii) the turnover of fixed capital and (iv) the possibility of disequilibria between the departments of production in Volume II; (v) the TRPF and (vi) the financial cycle in Volume III. One can also distinguish between these determinations according to their explanatory status: enabling ((i) and (iv)),

⁹ Callinicos, 2014: 258-82.

¹⁰ Mandel, 1975, ch. 1.

conditioning ((ii) and (iii)), or causal ((v) and (vi)).¹¹ This particular interpretation may not work, but it still seems better to try to seek a determinate structure in Marx's treatment of crises consonant with his overall method than to follow Harvey's preferred approach. What he himself rather likeably calls his "chaotic mishmash of possible causes for breakdown and crises" (Harvey: 2015b) offers too loose a framework to offer much in the way of explanation. What we get in his recent work is rather high-quality description and, given the intellectual depth of Harvey's understanding especially of the historical geography of capitalism, *very* high-quality description. But as we grapple with a badly damaged but still immensely powerful capitalism we need more than description.

Why profit rates matter

It is worth elaborating the sense in which the TRPF plays such a vital causal role in crises. Once production and circulation are integrated together in Volume III, Marx notes that capital "independently of its social relation to labour" takes on the appearance of an "autonomous source of surplus-value alongside labour and independent of it (Marx, 1981: 135-136). It "produces new configurations in which the threads of the inner connection get more and more lost". With the formation of the general rate of profit and the transformation of values into prices of production, "[p]rofit now appears as determined only secondarily by the direct exploitation of labour." The integration of interest-bearing capital into the analysis "completes the autonomisation of the form of surplus-value, the ossification of its form as against its substance, its essence" (Marx, 1981: 967-968). However, despite appearances, capital remains a social relation whereby value is set in motion in order for it to expand, with expansion acting as the ultimate "spur to capitalist production", because "valorisation of capital is its sole purpose". It is hardly surprising, then, that Marx would see a fall in the rate of expansion of capital as a "threat to the development of the whole capitalist production process", a barrier testifying "to the restrictiveness and solely historical and transitory character of the capitalist mode of production" (Marx, 1981: 349-350).

If Harvey's arguments about the indeterminacy of profit rates were true, then it would potentially relegate the TRPF to simply another in a list of possible causes of crises, rather than a barrier to capitalist production. However, even if the TRPF is considered, as it should be, in interaction with the countertendencies that are, like the tendency itself, called into being by the accumulation process, there are good reasons to expect patterns of declining profitability to emerge.

It is well-known that Marx did not envisage a perpetual secular decline in profitability. In discussing Ricardo and Smith's views of crises in the 1861-3 manuscripts, he writes, "When Adam Smith explains the fall in the rate of profit from

¹¹ Callinicos, 2014, ch. 6.

a SUPERABUNDANCE OF CAPITAL, an ACCUMULATION OF CAPITAL, he is speaking of a *permanent* effect and this is wrong. As against this, the transitory SUPERABUNDANCE OF CAPITAL, overproduction and crises are something different. Permanent crises do not exist” (Marx & Engels, 1975-2005, 32: 128). Marx appears to have envisaged the TRPF and the countervailing tendencies as working themselves out through periodic crises. He writes that “the development of labour productivity involves a law, in the form of the falling rate of profit that at a certain points confronts this development itself in a most hostile way and has constantly to be overcome by way of crises” (Marx, 1981: 367). Far from the tendency and countertendencies simply pushing profit rates up or down, they tend to develop in an explosive manner, with periods of expansion punctuated by crises.

Indeed, the countervailing tendencies themselves can help generate problems for the accumulation process. One of the reasons for this is given by Harvey himself in *Limits*, namely that the cheapening of constant capital is not an automatic boon to capitalists unless we abstract from the effects of time. If a capitalist sinks their capital into an expensive piece of technology, the subsequent cheapening of this technology is of little benefit to them. On the contrary, it will simply allow later-investing rivals to undercut the first capitalist, effectively devaluing the output and in actuality undermining the profit of the first capitalist, even if it boosts the profits of the other capitalists who invest later. Even the cheapening of circulating constant capital, as well as exerting an upward pressure on the profit rate of capitalists purchasing it, can hurt capitalists who have extensive stocks of goods produced with the input in question, either waiting to be used or waiting to be sold (Harvey, 2006: 197; Harman, 2009: 74).

There is a second reason why in periods of rapid accumulation the tendency will generally predominate over the countertendencies. Guglielmo Carchedi proposes the following thought experiment. Imagine two capitalist competing: the first through labour-shedding innovations that raise the productivity of labour, thereby cheapening each unit of their output, the second through innovations that reduce the costs of their technology or through wage-repression. As the first capitalist increases their productivity and appropriates a greater amount of surplus-value across that sector, the second capitalist will be forced to intensify their cost-saving measures. However, the second capitalist will ultimately encounter a limit: neither constant nor variable capital can sink to a value below zero. For the first capitalist, by contrast, there is in principle an unlimited potential to expand productivity, provided they can mobilise sufficient capital to obtain any new labour-saving innovations that emerge (Carchedi, 2012: 97-98). Chris Harman makes the same point in a slightly different way: “Capitalists are driven to seek innovations in technologies that keep them ahead of their rivals. Some such innovations may be available using techniques that are not capital intensive. But there will be others that require more means of production—and the successful capitalist will be the one whose investments provide access to both sorts of innovation” (Harman, 2007: 143). Indeed the very processes that liberate

surplus-value *gratis* for capitalists will, all else being equal, tend to increase the scope for further capital-intensive investment (Green, 1979: 29-30).

The argument therefore is that it is crisis that offers a way of explosively resolving the contradictions developed by the interaction of the TRPF and the countertendencies. As Harvey puts it in *Limits*, the “gentle imagery of ‘depreciation’ gives way to the more dramatic and violent imagery of ‘destruction’ when it comes to describing the devaluations that occur in the course of crises” (Harvey, 2006: 200). This is the form through which the “contradictions lead to explosions, cataclysms, crises, in which by momentaneous suspension of labour and annihilation of a great portion of capital the latter is violently reduced to the point where it can go on” (Marx, 1973: 750). Crisis allows for a generalised destruction and devaluation of capital as firms fail or dump their goods on the market, as credit is violently deleveraged and wages are repressed, restoring profitability.

Understanding the TRPF in this way does establish one point of agreement with Harvey. In his reply to Kliman he questions the metaphor sometimes used about Marx’s law, when it is compared to gravity (Harvey: 2015b). Using gravitation to clarify the workings of economic mechanisms has a long pedigree, going back to David Hume in the mid-18th century. But it isn’t a helpful way of thinking about the TRPF. It implies that the law functions in principle on its own and then is subject to distortions caused by factors external to it (as air friction and the like do in the case of gravitation). But, as we have indicated, the TRPF does not work in this way at all. At least in the most finished version of the theory in *Capital*, III, there is an internal relationship between the tendency and the main counter-tendencies, reflecting the fact that both work on the rate of surplus-value and the composition of capital. The TRPF conceptualises a mobile system of interactions, not the drive of a law to express itself through various interferences. But, though we think Harvey is right to question the gravitational metaphor, we do not think his preferred alternative—seeing capitalism as an organism—is particularly helpful. Though it can draw justification from his writings on dialectics, the effect is to license the casual empiricism on display in his discussions of the TRPF and Marx’s method. The truth is that neither metaphor, neither gravitation nor organism, captures the nature of capitalism as Marx conceptualises it. He understands capitalism as an articulated but dynamically developing totality. It is just because metaphors are only of limited use in helping us to understand this totality that Marx develops his method of successively introducing increasingly complex determinations. As he himself warned the French readers of *Capital*, there is no easy way to avoid this method if we want to make sense of capitalism.

The relevance of the data

Stressing the importance of Marx’s method of theory-construction doesn’t mean ignoring evidence. Harvey’s aside, “Since I am not inclined or qualified to attempt

any sophisticated counter-analyses of data sets” does not seem to stop him disputing the data or offering a rather patronising dismissal of writers such as Michael Roberts: “an array of graphs and statistical data on falling profit rates” (Harvey, 2015a: 12, 2). But Roberts does not simply present data, he also offers theoretical justifications for how he treats data. Harvey does not engage with this at all.

This lack of engagement does not stop Harvey muddying the water regarding questions of measurement. For instance, Harvey asks whether the denominator of the rate of profit is given by the total capital set in motion or simply that capital consumed in a given period (Harvey, 2015a: 14). Marx points out that the total surplus-value is the excess of value over the capital *consumed* in the form of variable capital, circulating constant capital and the depreciation of fixed capital. However, the rate of profit is a measure of the rate of self-expansion of capital and therefore should be measured against the *total capital advanced* (Marx, 1981: 139-140; 335-336). This distinction is also why Marx’s prices of production must contain two different measures for capital: the price of production is the sum of the capital consumed in production (the “cost of production”) and the average profit obtained based on the total capital invested (Marx, 1981: 257-258). In most cases, profits measured against advanced capital and consumed capital will indicate quite different trends, unless “the amount of intermediate goods being processed by one unit of capital stock is unchanged” (Gu, 2012: 87).

This immediately raises a second problem, because in principle Marx’s formula includes not simply fixed capital but also circulating constant capital and variable capital in the denominator. Peter Jones makes a compelling argument that we have to calculate the stock of variable capital tied up in production over a given period if we want to treat it in a manner consistent with the way we treat the stock of fixed capital (Jones, 2012). The circulating constant capital needs to be dealt with in an analogous way, a factor that in practice makes it extremely difficult to include it in calculations of profitability (Kliman, 2012: 80-81).

Harvey also hints at an additional problem. He writes: “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” (Harvey, 2015a: 13). The second example is just the wage-squeeze theory discussed above, but, considering the first case, it is true that a failure to realise surplus-value would appear in the data as a fall in the profit rate. Generally, in the discussion of the rate of profit in the third volume of *Capital*, Marx seems to focus on *created* rather than *realised* of surplus-value, though he notes, during his discussion of the TRPF, that “conditions for immediate exploitation and the realisation of that exploitation are not identical” and that the latter are not determined purely by society’s productive powers (Marx, 1981: 352). However, if, for whatever contingent reasons, people ceased to buy products and they piled up in warehouses, this would indeed lead to a short-term fall in profit rates in the data. This is why care

has to be taken when looking at the measured rate of profit and why its short-term movements cannot necessarily be taken to be the immediate product of changes to the organic composition of capital or the rate of surplus-value.

But aside from short-term fluctuations in the realisation of surplus-value, the question arises of whether a generalised and sustained fall in aggregate demand can take place, inducing a crisis of realisation. In fact, this cannot be divorced from a consideration of profit rates. As Carchedi shows, if the decline in aggregate demand is due to a fall in the purchasing power of labour, this is a factor that, while undermining profitability through realisation, ultimately boosts profitability through an increased rate of surplus-value. If all the “overproduced” commodities go unsold, the impact on overall profitability is nil; if some of the commodities are instead bought by capital, profit rates should rise (Carchedi, 2012: 134-135). As for a decline in demand for capital goods, we should expect this to follow precisely from a decline in the rate of accumulation resulting from falling profitability, leading to overproduction of commodities (Carchedi, 1991: 161-178). One of Kliman’s noteworthy results is that the rate of investment in fixed assets tracks closely one of his measures of the rate of profit (Kliman, 2012: 91). Of course, in the short term, credit expansion can overcome the decline in the purchasing power of productive capital, but this cannot continue forever. As Carchedi writes, “[s]ooner or later, debts must be repaid... A point is...reached at which there has to be a sudden and massive deflation in the financial and speculative sectors. Even though it looks as if the crisis has been generated in these sectors, the ultimate cause resides in the productive (of surplus-value) sphere” (Carchedi, 2012: 149). In other words, pointing to the problem of treating “realised” profit rates as a proxy for “produced” profit rates does not necessitate seeing crises of realisation as developing autonomously of the TRPF.

The main thing that emerges from the data, according to a range of different Marxist authors, is that profit rates, at least for the US, the largest economy and the one for which the best data is available, show a cumulative falling pattern through the post-war decades and, especially according to authors who measure profit rates against historical rather than the replacement (current) cost of fixed capital, have not subsequently recovered in the course of the crises of recent decades to the kinds of levels experienced in the 1950s or 1960s.¹² One possible explanation for this is that the processes of centralisation and concentration of capital, together with the increased entanglement of the state with capital in the post-war period, have undermined the capacity of crisis to alleviate the symptoms of overaccumulation, leading to a progressive declining trend over multiple cycles (or alternatively for a levelling out of average profitability through the cycle at low levels).¹³

¹² For just a small range of recent studies, see Roberts, 2011; Basu & Vasudevan, 2011; Paitaridis & Tsoulfidis, 2011; Kliman, 2012; Freeman, 2012. Maito, 2014, is a fascinating attempt to construct a world rate of profit, which evinces a similar pattern.

¹³ On this, see Harman, 2009: 78-81; Choonara, 2009: 103-104; Callinicos, 2014: 276.

Of course, as we have already indicated, there are difficulties in dealing with the data. We are unlikely to have the means of calculating something approximating to the “Marxist” rate of profit outside of a communist society gifted with an extensive “bureau of Marxist economic analysis”, by which point in history such an exercise would be superfluous. The best we can achieve is to identify the broad trends on the basis of the data we do have, and even here, we have to choose carefully what it is we want to measure. There are, as Kliman writes, “many different legitimate ways of measuring rates of profit” (Kliman, 2012: 94-97). But surely in the face of this mass of detailed empirical work, conducted by a range of Marxists with often quite different approaches, a genuine engagement with both questions of method and the empirical issues would be in order.

Conclusion

We are definitely witnessing a renaissance in Marxist political economy. As we have already suggested, no one deserves more credit for this than David Harvey. This is why the way in which he has skidded off course in his polemic against the TRPF is so depressing. Of course, Harvey did not invent the use of question-begging tactics in debates among Marxist political economists. Several Marxist commentators have taken Marx himself to task for his rough treatment of Malthus; Rosa Luxemburg proved herself a pretty unfair debater in her reply to critics of *The Accumulation of Capital*. The critical question is, however, whether or not Harvey’s intervention has added to the debate on Marxist crisis theory and on our efforts to make sense of the complex condition of contemporary capitalism. The answer is that it has, to quite a limited extent. Pointing to the fact, for example, that we cannot assume the identity of produced surplus-value with the realised profits recorded by bourgeois statistical organisations is useful. It is not a new point (much ink was spilled in the 1970s on the difference between the value and price rates of profit), and Kliman in particular among contemporary authors has been careful to stress the gap between value and price measures, but it is helpful to be reminded about this.

But good points such as this one come amid a cloud of rhetoric that does not help to clarify the issues and that is seriously misleading on the key question of method. It is a pity that Harvey has chosen to lend his immense—and deserved—authority to such an effort. Let us hope that his future contributions, however controversial, will prove more enlightening.

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