

Kliman, The Failure of Capitalist Production

The basic point is that the rate of profit has fallen consistently, but that this has failed to register in mainstream (and other Marxist) accounts, for a number of reasons – most importantly:

- Calculation of depreciation at current cost instead of historic costs
- Failure to differentiate between different types of depreciation – wear and tear (which should be included in the calculation of depreciation) and moral depreciation (obsolescence – which shouldn't be included as depreciation, because its value is destroyed rather than transferred through use)

Some important calculations:

Net stock of capital = gross stock – depreciation

= gross investment – depreciation

Profit rate = profit / net stock of capital

N.B. depreciation must be measured at historical cost (i.e. the amount that the stock cost at time of purchase). However, it is standard to use current costs (but this fails to reflect the actual calculations of firms and is therefore largely meaningless as an indicator able to reflect the motives and actions of firms).

The calculation of current costs inflates the denominator when there is high inflation, and deflates it in low inflation (disinflation) – because the value that is lost to inflation between purchase of fixed assets and its use is calculated and then re-added into the current estimated value of fixed assets in the present - this is artificial, and means that a shift from high to low inflation (as we saw moving from the 1970s to the 1980s) would therefore create an artificial appearance of an increased profit rate.

Figure 6.3 compares rates of profit using these alternative calculations.

A better way to adjust for inflation – i.e. to respond to those who claim that otherwise historical costs fail to adjust for inflation - would be to adjust by RPI (rather than by the change in costs of fixed assets). This is a better measure because it then includes an adjustment in terms of nominal prices, rather than an adjustment in terms of changes over time to the cost of the fixed assets being used (this obviously makes more sense, as the owner of the fixed assets can't re-purchase the fixed assets at the new price). This is particularly important if there is a big gap between the changed price of fixed assets and changes to RPI – which, again, there was in the 1980s onwards (i.e. fixed assets got cheaper relative to RPI) - as the current cost adjustment for inflation will reduce the denominator artificially if fixed asset prices have grown slower than the RPI.

Figure 6.6 compares these alternatives.

In terms of explaining the declining rate of profit, Kliman shows that the share of profit has largely remained unchanged throughout the post-war period. The main reason that the declining rate of

profit has occurred therefore is almost entirely as a result of the rising organic composition of capital, or value composition of capital (which is more measurable but roughly the same) – i.e. the ratio of constant capital to employees – this can be seen clearly in figures 7.4 (correlation between value composition (inversed) and rate of surplus value), 7.5 (rising MELT-adjusted value composition) and 7.7 (declining rates of profit).

Finally, we need to treat moral depreciation differently to other types of depreciation – because moral depreciation (i.e. obsolescence) is an absolute cost that doesn't see the commodity get used and therefore doesn't retain its value; whereby, in contrast, wear and tear of means of production does see the fixed asset retain its value (i.e. it gets transferred, in Marx's terms, to whatever commodity it is used to make). Hence, returning to our calculation above, we should calculate as follows:

$$\begin{aligned}\text{Net stock of capital} &= \text{gross stock} - \text{depreciation} + \text{moral depreciation} \\ &= \text{gross investment} - \text{depreciation} + \text{moral depreciation}\end{aligned}$$

The affect of this adjustment (adding moral depreciation back into the calculation of net stock of capital) will therefore be to increase the denominator in the calculation of profit (i.e. to reduce the rate of profit); and therefore the fact that this adding back in of moral depreciation doesn't happen in most standard calculations means, again, that the calculation of the rate of profit tends to be artificially inflated in standard calculations. This is particularly important because moral depreciation was so high over the last 20 years or so, due to the importance of IT growth and technological obsolescence. This difference is shown in figure 7.12.