

The US rate of profit 1948-2015

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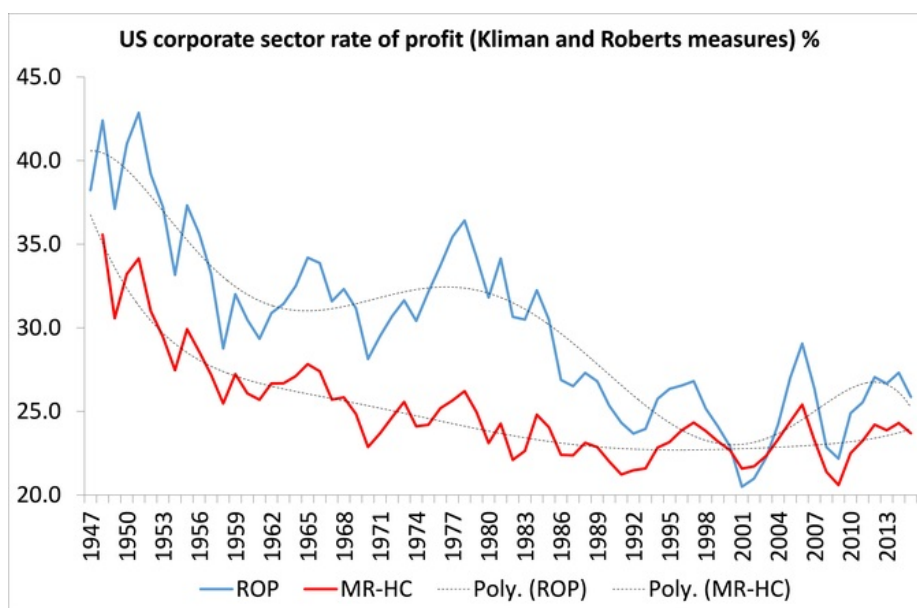
The US Department of Commerce's Bureau of Economic Analysis (BEA) has just updated its estimates of net fixed capital stock in the US economy. This gives us the opportunity to measure the US rate of profit *a la Marx* up to 2015.

I made such measurements up to 2014 [in a previous post](#) about a year ago. Last December, I summed up the conclusions from the data. *"First, the secular decline in the US rate of profit since 1945 is confirmed and indeed, on most measures, profitability is close to post-war lows. Second, the main cause of the secular fall is clearly a rise in the organic composition of capital, so Marx's explanation of the law of the tendency of the rate of profit to fall is also confirmed. Third, profitability on most measures peaked in the late 1990s after the 'neoliberal' recovery. Since then, the US rate of profit has been static or falling. And fourth, since about 2010-12, profitability has started to fall again. Finally, the fall in the rate of profit in the US has now given way to a fall in the mass of profits."*

Now that we have all the 2015 data, I have revised the results with the help of Anders Axelsson from Sweden who has produced a very handy manual for anybody to use to work out and replicate the results. Anders has also checked the 2015 data as well. [short-manual-for-downloading-rop-data-from-bureau-of-economic-analysis-1](#)

The conclusions reached last year are pretty much unchanged. In last year's post, I updated the rate of profit as measured using the assumptions and methods of Andrew Kliman in his book, [The failure of capitalist production](#). AK measures the rate of profit for the corporate sector only and uses the historic cost of net fixed assets as the denominator. I also used a slightly different variation of AK's approach in depreciating profits by current costs, while maintaining a historic cost measure of fixed assets. If all this sounds technical, it is and I refer you to the already cited [papers](#) and [posts](#) for an [explanation](#). See Anders' manual too. And there is special appendix in my new book, [The Long Depression](#), on measuring the rate of profit.

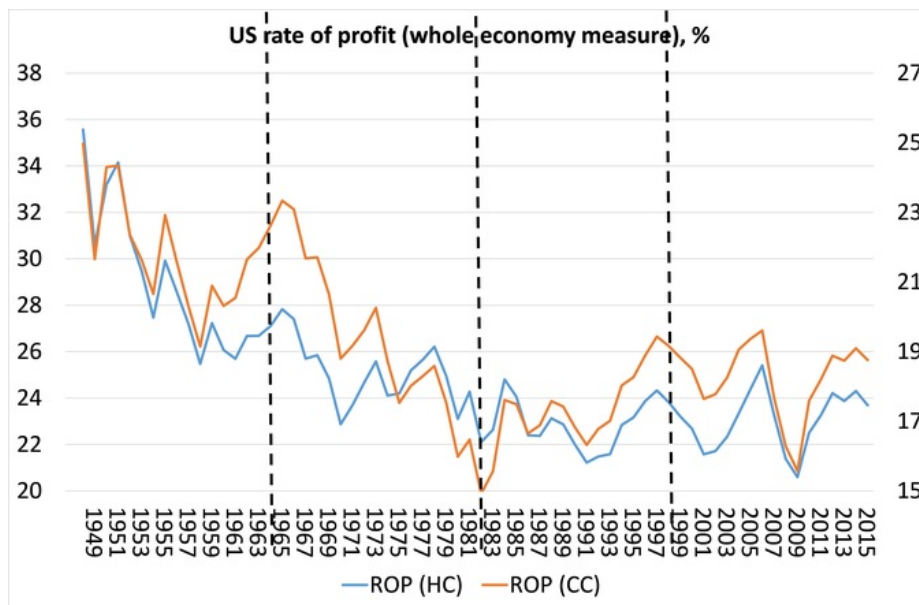
Anyway, the results for the US corporate rate of profit look like this.



In AK's measure the US corporate rate of profit falls from the late 1970s to a trough in 2001 and then it appears to make a recovery. But it could be said that the US rate of profit was more or less stable from the late 1980s. My slightly revised measure reveals a very steady decline until a stabilisation from the 1980s – or the traditional 'neoliberal period'. Both measures suggest that the US corporate rate of profit has been at least static (with

cyclical fluctuations) since 1997. Either way, the US corporate rate of profit is some 30% below where it was after WW2 and 20% below the 1960s.

However, I prefer as a better guide to the health of a capitalist economy to look at the total surplus value created in an economy against the capital employed, thus following Marx's basic formula, $s/c+v$. So I have a 'whole economy' measure using total national output, fixed assets and employee compensation for variable capital. The graph below shows the results updated to 2015 for this measure, using either historic or current costs to value fixed assets.



This shows that the overall US rate of profit has four phases: the post-war golden age of high profitability peaking in 1965; then the profitability crisis of the 1970s, troughing in the slump of 1980-2; then the neoliberal period of recovery or at least stabilisation in profitability, peaking more or less in 1997; then the current period of volatility and slight decline. The historic cost measure differs from the current cost measure in that the trough in profitability is actually at the end of the 1980s, as in Kliman's measure. And the current cost measure always shows much greater upward or downward movement.

What is interesting about the update of data to 2015 is that it reveals that, whatever measure is used, the rate of profit in 2015 is lower than in 2012; lower than in 2006 (the peak of the last cycle); and lower than in 1997 when most measures peaked. So there is currently a downward phase in the rate of profit. Given the fall in the mass of profit during this year, we can expect to see a further decline in 2016. I'll return to this point later when we look at the measures of profitability provided by the US Federal Reserve.

We can sum up the movements in the rate of profit as follows: (1 = base point)

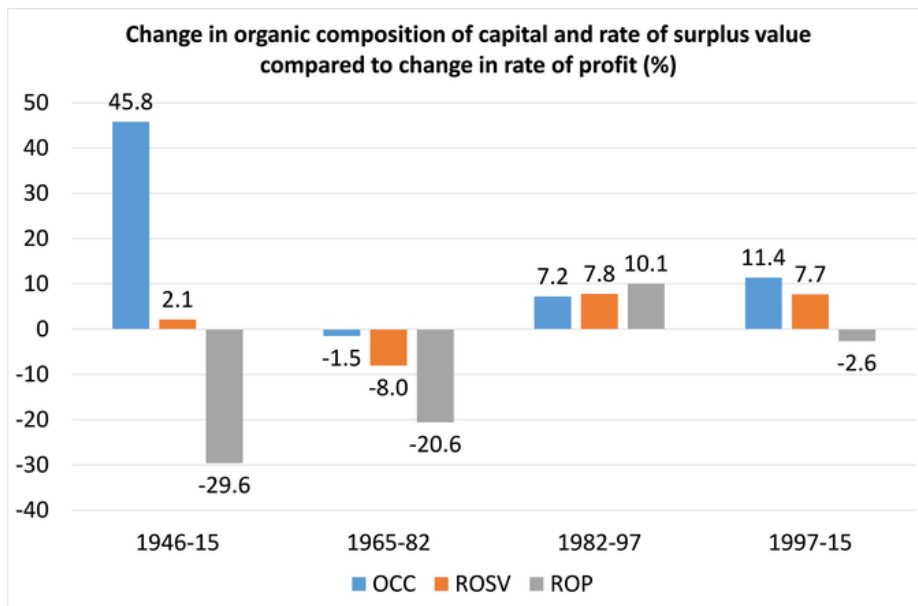
	1948-65	1965-82	1982-97	1997-15	1948-15	2006-15
HC	0.78	0.79	1.10	0.97	0.67	0.93
CC	0.93	0.64	1.30	0.97	0.75	0.96

So between 1948 and 2015, the US rate of profit declined between 25-33% depending on whether you measure fixed assets in historic (HC) and current costs (CC). Between 1965 and 1982, the rate fell 21-36%; but from 1982 to 1997 it rose 10-30%; but since 1997 it is down 3% and 4-7% from 2006.

And each economic recession in the US starting from the first large one in 1974-5 has been preceded by a fall in the rate of profit at least one year and often up to three years before. (1= base point)

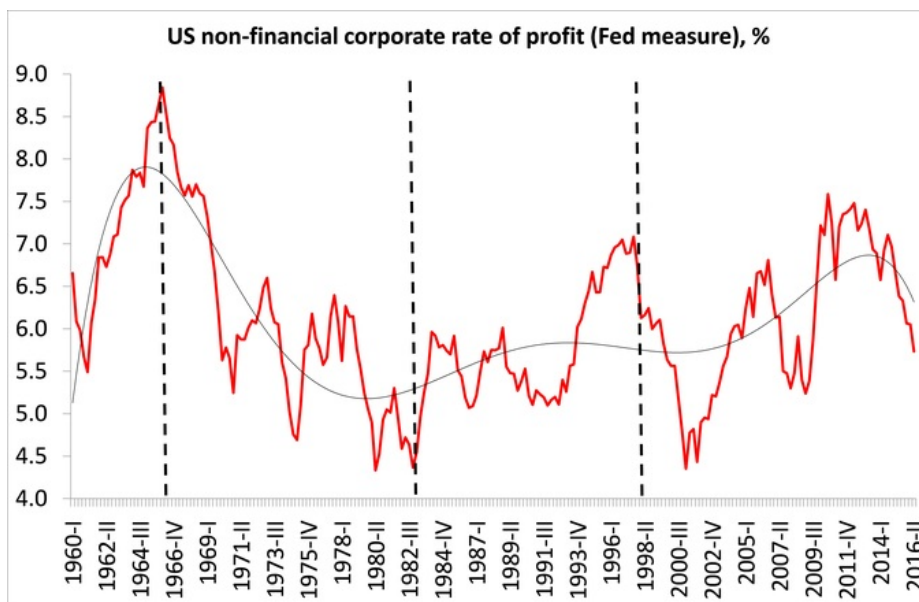
	1973-5	1978-82	1988-91	1997-01	2006-9
HC	0.95	0.84	0.92	0.89	0.81
CC	0.87	0.80	0.93	0.91	0.79

Last year, I compared the change in the rate of profit to changes in the organic composition of capital (fixed assets divided by employee compensation) and the rate of surplus value (profits divided by employee compensation). I did this again for 2015 and it confirms Marx's law of profitability, namely when the organic composition of capital rises faster than the rate of surplus value, the rate of profit will fall and vice versa.



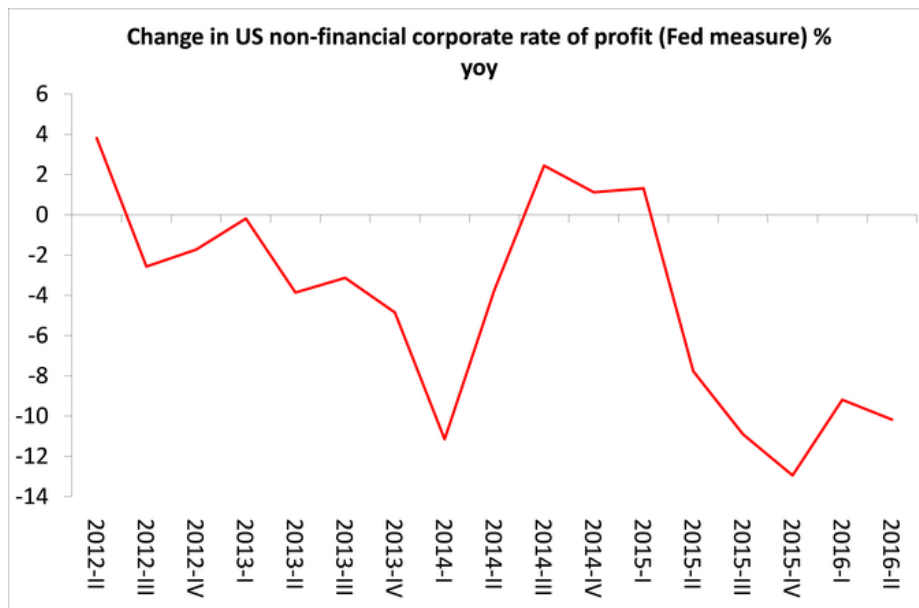
Over the whole period, 1946-15, the rate of profit fell 30% (historic cost measure), while the organic composition of capital rose 46% and the rate of exploitation rose 2%.

The US Federal Reserve also provides data from which we can glean an estimate of the US rate of profit and on an even more up to date basis (to mid-2016). However, the Fed measure only covers the non-financial corporate sector and only goes back to 1960. The Fed measure, *a la Marx*, is the net operating surplus (profit) over non-financial assets and employee compensation. It broadly confirms the long-term trends revealed in the whole economy measure.



More interestingly, the Fed measure shows that the rate of profit for non-financial companies has fallen since 2012 and particularly since 2014.

So, as I said at the start of this post, the main conclusions from last year remain. What the 2015 measures add is that the US rate of profit (on any measure) fell in 2015 and is now down about 3% from 2012. US corporate profits are falling in absolute terms and have been since early 2015.



The US rate of profit is likely to have fallen again this year and that fall is accelerating according to the more high frequency Fed data.