

## **“*Zirkel vicieux*” or Trend Fall? The Course of the Profit Rate in Marx’s *Capital III***

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Karl Marx’s theory of “the tendency of the rate of profit to fall” is one of the most controversial parts of his scientific oeuvre. The theory was published in 1894 as part 3 of Volume III of *Das Kapital*. There are two conflicting interpretations of this theory. The first says that the profit rate will vary (cyclically) around a *falling trend*; the second, that the profit rate will vary *cyclically* but not necessarily around a falling trend. Both interpretations may be combined with methodological qualifications as set out in the present article.

The two interpretations are relevant since at issue is Marx’s general outlook on the dynamics of the capitalist system. It makes quite a difference whether the capitalist system is regarded as self-dissolving—which is the implication of the trend fall in the rate of profit—or as, in principle, a reproductive system, which the cyclical view implies.<sup>1</sup>

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1. This—the system’s being reproductive—concerns the “pure economic” moment of the system. There might be other reasons (e.g., political ones) why the system might be self-dissolving. As to the first view: a stationary state is excluded, given Marx’s view of the systemic necessity of the accumulation of capital.

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For several reasons the first interpretation was dominant until the last quarters of the twentieth century.<sup>2</sup> It is not surprising, therefore, that this is the view presented in many textbooks on the history of economic thought. The advantage of this reading is that it “merely” requires emphasizing certain parts of the text and deemphasizing others.

Although it has its advantages, the first interpretation leaves us with a number of puzzles; but even greater difficulties arise with the second interpretation, since some passages of the text (that is, of any given edition of *Capital III*, excluding the manuscript) are blatantly inconsistent with it. Therefore, even if one has good grounds for the second interpretation (see section 1 below), some textual counterevidence remains.

From this perspective it is of interest to compare especially these textual inconsistencies in published versions of *Capital III* with Marx’s manuscript text. *Capital III* appeared eleven years after Marx’s death. Friedrich Engels edited the book from Marx’s manuscripts dating from 1864–65, that is, from some time before the 1867 publication of Volume I. For the textual comparison, which is set out in section 2, we can make use of the German transcription of Marx’s manuscript that was published in 1992.

The historian of thought usually has a position vis-à-vis the subject matter, and the present author is no exception. Whereas I consider the current Marxian paradigm to be fruitful for the analysis of capitalist economies, there is not much point in seeking consistency between Marx and the current Marxian paradigm.<sup>3</sup> Many of Marx’s writings are ambiguous and often also inconsistent; they are also methodologically complex, contributing to an at least apparent ambiguity.<sup>4</sup> First, there is the normal inconsistency between the writings, and at times ambiguity within the writings, of someone who develops thoughts throughout his or her life. Second, Marx—as a confirmed critic of classical political economy—adopted the method of “internal critique” to develop his own thought (a method largely taken over from Hegel).<sup>5</sup> This also applies to

2. In fact the theory itself did not occupy a prominent place in the debates of the *first* quarter of the century (these were largely framed in terms of Marx’s reproduction schemes). However, this article is not about the general history of this theory but merely about one exegetical aspect of it.

3. Throughout this article I distinguish between “Marx’s theory” and “Marxian theory,” the latter referring to the theory of authors working in the Marxian *paradigm*, which may be as homogenous or heterogenous as any other paradigm.

4. In light of this, Tony Smith (2002) argues that it is rather problematical to speak of “interpretations” of Marx: they are bound to be “reconstructions.”

5. There are other methodological complexities that I neglect for the purposes of this essay (see Reuten 2003).

the case at hand: the “law of the falling rate of profit” was, of course, a major theorem of classical political economy. All interpreters agree that Marx disputes the classical reasoning *behind* the law (i.e., Ricardo’s); but did he accept the law *itself*?

A note: In what follows, unless otherwise indicated, whenever I refer to the “text” of *Capital III*, I mean the published versions of *Capital III*, excluding the published version of the manuscript. When I refer to the “manuscript,” I refer to Marx’s manuscript.

## 1. Two Interpretations: Trend Fall versus Cycle

In order to appreciate the comparison of the text of *Capital III* with Marx’s manuscript in relation to the two rival readings (see section 2), I will, as a reminder and without much textual ado, briefly set out in this section a stylized presentation of the two interpretations.

### 1.1 The Standard View: Trend Fall

Part 3 of *Capital III*, as edited by Engels, comprises chapters 13–15. In chapter 13, “The Law as Such,” Marx sets out how the compulsion to achieve higher profits gives rise to the accumulation of capital in the shape of *productivity-raising* techniques of production along with a relative decline in the employment of labor. We have a tendential rise in the organic composition of capital: the ratio of the value of the means of production ( $K$ ) to the value of labor power ( $wL$ , where  $w$  is the wage rate and  $L$  the amount of labor). Thus:

$$(K/wL)\uparrow, \tag{1}$$

where  $\uparrow$  is the sign for the tendential rise.

If we restrict the outlay of total capital to the means of production and labor power, denote the rate of depreciation by  $\delta$ , and represent total surplus-value or total profits by the sign  $R$  and gross production by  $Y$ , we have<sup>6</sup>

$$\delta K + wL + R = Y, \tag{2}$$

6. At this level of abstraction (prior to the differentiation of capital into industrial, commercial, and money capital as well as landed capital, set out in the remaining parts of *Capital III*), total surplus-value and total profits are the same.

and for the rate of profit ( $r$ )

$$r = R/(K + wL). \quad (3)$$

Marx does not use this notation, although his own notation gives rise to it.<sup>7</sup>

From equations (1) and (3) it follows that at any given prevailing distribution between capital and labor ( $R/wL$ )—or, put more succinctly, if we keep that ratio of distribution “momentarily” constant, that is,

$$R/wL = \text{constant}, \quad (4a)$$

then the rate of profit must tendentially decline. Or, if we consider the rate of surplus value to be tendentially rising ( $R/wL \uparrow$ ) and if

$$(R/wL) \uparrow < (K/wL) \uparrow, \quad (4b)$$

then the rate of profit must tendentially decline, which can be seen from dividing the right-hand side of equation (3) by  $wL$ .

This, then, is a grand “contradiction” of capital accumulation: the compulsion to make more profits gives rise to a tendential decrease in the rate of profit.<sup>8</sup>

Chapter 14 of *Capital III* discusses the counteracting tendencies, most importantly the cheapening of the material elements of capital (the prices of wage goods whence  $w$  may decline, or those of the means of production whence the rise in  $K$  may be tempered or nullified), which of course affects inequality (4b).

In this standard interpretation, the following chapter, chapter 15—which is somewhat mysteriously titled “Development of the Law’s Internal Contradictions”—does not substantially add to what has been said in

7. I use this notation rather than Marx’s in order to keep this section concise. The term  $wL$  in equation (3) would require a turnover coefficient. Alternatively, and assuming that wages are paid at the end of the production period, we might write:  $r = R/K = (R/wL)/(K/wL)$ ; in this last expression any consistent measure for  $wL$  will do (e.g., the wage bill for a year).

8. Quite another controversy from the one dealt with in this article relates to the adequacy of the relations set out so far. Inequality (4b) need not hold if an at least parallel increase in  $R/wL$  goes along with an increase in  $K/wL$  (i.e., a parallel increase instead of a “counteracting tendency”). Or, in general, why would capitalists introduce new techniques that in effect decrease the general rate of profit? This is a main point of Okishio 1961, although there are precursors of this criticism (see Groll and Orzech 1989). In an earlier paper (Reuten 1991; cf. Reuten and Williams 1989, chap. 4) I indicate how this criticism is based on an equilibrium notion, and that once we take account of heterogenous plants in a branch—stratified according to the technical composition of capital and different rates of profit—it is not difficult to provide sufficient support for Marx’s theory. Whether Marx saw that is a different question we can leave to one side here.

the previous chapters. True, there are some interesting qualifications—such as allusions to the course of the business cycle, to the devaluation of capital, and to the concentration and centralization of capital—but none of this can lessen the status of the previous two chapters. Key to the important status of chapters 13 and 14 is a statement made toward the end of chapter 13:

Viewed abstractly, the rate of profit might remain the same. . . . The rate of profit could even rise, if . . . In practice, however, the rate of profit will fall in the long run, as we have already seen. (Marx 1894F, 336–37)

Stated thus, chapter 13 may be taken as setting out the *dominant* tendency; the *counteracting* tendencies of chapter 14 merely slow down the process.

Within this interpretation in general, one strand has stressed the cyclical “aspects” of the theory, nevertheless against the background of the “long-run” dominant tendency.<sup>9</sup>

Note that, like Marx, I have consistently used the term *tendency*. Throughout most of the twentieth century—up to its last quarter—this term was chiefly identified with “trend,” rather than, say, “operating force.” However, even with a more sophisticated view of tendency, the *dominant tendency* interpretation of chapter 13 may still hold; so in effect we should observe at least a secularly declining rate of profit—in accordance with the statement just quoted.

## 1.2 The Rival View: Cyclical Development

The focus of the rival interpretation is chapter 15 and its status vis-à-vis the earlier two chapters. In fact, in the way I have presented the summary of chapters 13 and 14, there is no major disagreement over the content of these earlier chapters—although there is disagreement over how they

9. Economic crises restore the rate of profit and thus *slow down* the general process. This strand originates with Henryk Grossmann ([1929] 1967). Note that I said cyclical “aspects.” Grossmann does not claim that this theory of Marx (or his own amplification of it) is a full theory of the business cycle (138). Although the major part of Grossmann’s work (287–579) covers a discussion of the “counteracting tendencies,” the title of the book indeed indicates the general idea of a *dominating* tendency: *Das Akkumulations- und Zusammenbruchsgesetz* [Law of breakdown] *des kapitalistischen Systems*. Nevertheless, Grossmann is careful enough to say that Marx never used the phrase “law of breakdown,” or “theory of breakdown”—he claims, however, that Marx provided the “elements” for such a theory (78).

rank in importance.<sup>10</sup> The crucial point within this interpretation is that chapters 13 and 14 are formulated at a higher level of abstraction than chapter 15, which is seen as a more concrete and synthetic development from these earlier chapters. This is the chapter where Marx develops the cyclical “aspects” of the theory. Thus, in effect, the earlier two chapters are interpreted as being of equal importance; hence we have no dominating tendency and analogous trend.<sup>11</sup>

In chapter 15, in brief, Marx indicates how the tendential decline of the rate of profit is expressed cyclically. Along with the accumulation of capital and the concomitant rise in the organic composition of capital, the rate of profit declines—that is, in the upturn phase of the cycle. This gives rise to an economic crisis, in the process of which the rate of profit is restored, most importantly because of the writing down of capital values (“devaluation of capital”) and the scrapping of capital (cf. section 3 of chapter 15). Marx (1894F, 363–64) then writes:

The stagnation in production that has intervened prepares the ground for a later expansion of production—within the capitalist limits. And so we go round the whole circle once again.

10. The rival view seems to have originated with Ben Fine and Laurence Harris (1976). See also chapter 4 of their *Rereading Capital* (1979) and Lebowitz 1976. In a way, the rival view was prepared by Joan Robinson ([1942] 1969) and Paul Sweezy ([1942] 1968), both of whom argued, in short, that there is no reason in principle why the initial tendency should be dominant over the counteracting ones. Note that, as I said, there is no major disagreement over the earlier chapters in the way I have, for brevity, presented them here. Fine and Harris initiate their argument by making a sophisticated differentiation between the “technical,” the “organic,” and the “value” compositions of capital. In the same context this difference was also stressed by Paul Mattick ([1969] 1974, 59–60). (See also appendix A of Groll and Orzech 1987 with references to Moszkowska and earlier work of Groll.) The rival view on this particular matter does not stand alone. It is part of a general reassessment of Marx’s work that gradually emerged from the 1970s (see Reuten 2003).

11. Hence chapter 13 by itself is not an empirical prediction of a trend fall in the rate of profit. Interestingly, this shift in interpretation seems to involve a minor “paradigmatic” shift. For example, Michael Howard and John King, in their *History of Marxian Economics* (1992)—apparently steeped in the old view—seem to be blind to the idea that a different interpretation is possible at all. In a rather voluminous work, they devote only ten lines and a footnote to it. “For some Marxian economists,” they write, “Marx’s ‘law of the tendency’ was not meant to be an empirical prediction concerning the secular course of the profit rate. . . . This implies that Marx’s analysis can never be wrong, because it is empirically empty” (318). Their position would of course preclude any “non-trend” theory of cyclical development (of the profit rate). It is hard to see why, by whatever methodological standards, a theory of a *secular trend* fall in the rate of profit would have more empirical content than a theory of a *cyclical* development of that rate. Another historical account (Cullenberg 1994) equally takes its vantage point from the old interpretation. I mention these to illustrate that as late as the early 1990s, some circles had not felt the full impact of the rival view (this, of course, is not to say that these authors should have agreed with the rival view; the point is that they provided no, or no proper, account of it).

Thus it seems that the fall in the profit rate is a discontinuous, periodic matter rather than a trend-like phenomenon.<sup>12</sup>

But if this reading of the text (also) makes sense, as I think it does, then one is faced with a number of inconsistent passages, an important example of which was quoted at the end of the previous subsection.<sup>13</sup>

### 1.3 Qualifications

Although the methodological background of Marx's theory is not the subject of this article, it should be indicated, even if briefly, that we find in both camps quite a number of authors emphasizing that given the abstract level of the theory of Volume III of *Capital*, it does not reach the theoretical level appropriate for empirical prediction. Of course, as is well known, Marx completed only a "modest" part of his theoretical project.<sup>14</sup> In the current context it is especially noteworthy that although many parts of *Capital* discuss *aspects* of the business cycle, the analysis of the business cycle itself was planned only for the last book ("Book Six") of the project (cf. e.g., Marx 1894U, 358; 1894F, 480). Relatedly, we also find in both camps various interpretations of Marx's notion of "tendency."<sup>15</sup> (All this is about Marx; later Marxian theories reaching the empirical are beyond the scope of this paper.)

### 1.4 Conclusions

A careful reading of the *Capital III* text on the development of the profit rate allows for two interpretations. In the first, dominant weight is given

12. Thus whereas in the first interpretation we have a trend fall—the profit rate declines in the long run (even if halted at times)—the second interpretation is inconclusive about a trend—it might go up, down, or move horizontally; the rate of profit "merely" goes down and up cyclically.

13. Fine and Harris (1976, 160; 1979, 61), for example, are well aware of the inconsistencies and go for a reconstructive approach. Faced with the inconsistencies not only in *Capital III* but also in *Capital I*, Groll and Orzech (1987) propose the plausible hypothesis that between the writing of the manuscript for *Capital III* (i.e., 1864–65) and the 1867 publication of *Capital I*, Marx changed his views (see also the communication Fine 1990 and Groll and Orzech 1990). Nevertheless, Groll and Orzech (1987, 599, 601) indicate that "already in his initial formulation" Marx is "sceptical" of the secular trend conclusion. Groll and Orzech's view was especially plausible in the face of the evidence they had at the time (i.e., without the current evidence—see section 2). As indicated in appendix 2, it is quite conceivable that Marx rather started changing his views around 1862.

14. See, for example, Oakley 1983, esp. 107–8.

15. See Reuten 1997. The aim of that paper was to inquire into Marx's general notion of "tendency"; it took the same chapters 13–15 as a case for that purpose.

to “the law as such” (chapter 13) over its counteractions (chapter 14); the chapter 15 text must then be deemphasized, or be seen to depict cyclical development around a secular falling “trend” in the rate of profit (even if Marx does not use this terminology). For the second reading, the earlier two chapters are analytically on a par, and chapter 15 is interpreted as a synthesizing and concluding text. Although both readings are countered by insoluble puzzles and textual inconsistencies, those associated with the second interpretation seem “harder.”

## 2. Marx’s 1864–65 Manuscript:

### *The Zirkel vicieux*

As far as the text of *Capital III* as edited by Engels is concerned, I think that we should leave the issue here: the text is ambiguous and we can interpret it in two ways. However, to the extent that one is also interested in Marx’s ideas, it is useful to turn to Marx’s manuscript, upon which Engels did his editorial work and which was published as transcribed in German in 1992 (Marx 1894M, manuscripts 1863–67; those that comprise part 3 of *Capital III* dating from 1864–65). That is what I will do in this section.<sup>16</sup> I will review especially the passages that seem to give rise to the aforementioned ambiguities. Anticipating my conclusion, it seems that Engels himself had ideas on the issue that resulted in a particular emphasis. I am not saying that Engels was unfaithful to the text, but that his own ideas guided his organization of the material.

To understand Marx’s “entry point,” we should remember that in his day a “law of the tendency of the rate of profit to fall” was taken for granted among economists, on both empirical and theoretical grounds. William Stanley Jevons ([1871] 1970, 243–44), for example, writes, “There are sufficient statistical facts, too, to confirm this conclusion historically. The only question that can arise is as to the actual cause of this tendency.”<sup>17</sup>

From here on, I will use the following shorthand references:

M = Marx 1894M = German manuscript transcription of 1992

E = Marx 1894E = German text of 1894 as edited by Engels

16. For a general commentary on Engels’s edition in relation to the manuscript, see Vollgraf and Jungnickel 1994 and Heinrich 1996.

17. It is ironic that all the evidence we have from later commentators (Kuznets, Kaldor, et al.) is that the rate of profit in advanced capitalist economies has been trendless for over a century, that is, since 1860. In other words, most great economists from Adam Smith to Böhm-Bawerk and even Keynes believed in an empirical law that does not exist today.

U = Marx 1894U = German text of 1894 in the English Untermann translation of 1909

F = Marx 1894F = German text of 1894 in the English Fernbach translation of 1981

The current parts of *Capital III* were devised by Marx as chapters (thus the current part 3 corresponds to chapter 3 of the manuscript). But that is not important. What is important is that Marx's manuscript under discussion is not divided into three: there are no section breaks, or even blank lines between the current chapters. We have no so-called "law as such"—or at least there is no particular focus on it.

The first pages of the manuscript are similar to the current text of *Capital III* (M, 287–301; U, 211–25; F, 317–32). My reading of these is as follows. Marx sets out a hypothetical example of a falling profit rate. Then he writes: (1) this as a tendency is what we perceive in reality (F, 318); (2) it is what the economists perceived and have tried to explain (F, 319). Note that in general—throughout the text—Marx's reference to "law" (thus also the title of his chapter/part) is rather ambiguous. At least some of the time his "law" seems to refer to an empirical regularity.

Next Marx shifts the emphasis to what he apparently sees as a kernel of capitalist development: first, the accumulation and concentration of capital along with a rise in the productivity of labor, and second, a fall in the *rate* of profit along with a rise in the *amount* of profits. He repeats this over and again (e.g., M, 291, 298, 300). To him, *this* seems to be the law: the inverse relation of the amount of profit and the rate of profit (see also below).

After this, Marx's manuscript immediately moves—without even one blank line—to the counteracting tendencies (the text of chapter 14). Engels, however, first interpolates some text from much later in the manuscript (F, 332–38; roughly M, 316–20). In E, U, and F this is marked by a line or an asterisk (e.g., F, 332). This interpolation gives more weight to "the law as such."

Apart from this, at a crucial point in this text Engels also makes an (unmarked) interpolation of his own. On F, 336–37 (cf. M, 319), Marx writes, as we saw above:

Viewed abstractly, the rate of profit might remain the same. . . . The rate of profit could even rise, if . . .

After this, Engels interpolates:

Aber in Wirklichkeit wird die Profitrate, wie bereits gesehn, auf die Dauer fallen. (E, 240)

In Fernbach's translation, Engels's interpolation reads, "In practice, however, the rate of profit will fall in the long run, as we have already seen" (F, 337; cf. U, 230).<sup>18</sup>

In fact, we have not seen any such thing. Marx did not talk in terms of the "long run." The problem is that, of all three chapters, this (Engels's) sentence is in fact the strongest statement giving the impression of a "trend" fall. Furthermore, it is associated with (Engels's) "law as such"; if in practice the rate of profit will fall, the "law as such" might seem dominant.<sup>19</sup>

The second strongest statement (this time by Marx himself) comes at the end of the text/chapter on the counteractions. Note that when Marx sets out the counteracting forces/tendencies, he repeatedly indicates that these do "not annul the general law," but make it operate as a tendency (F, 341). He also says that the latter "to a greater or lesser degree paralyse" its operation (F, 344; M, 304, 306). This is again repeated in a conclusion on page 308 of M (page 346 of F). The final part may readily give rise to the two rival interpretations of trend versus cycle. In the Fernbach translation we have:

The law operates therefore simply as a tendency, whose effect is decisive only under certain particular circumstances and over long periods. (F, 346)

18. See row 1 of the table in appendix 1 for a full comparison of this text.

19. Apart from this change and the ones mentioned below, there are several more, slight changes in Engels's text, each one of which is perhaps too small to mention. Nevertheless, they contribute to the general emphasis. Michael Heinrich (1996, 456, 459, 464) writes about all of the manuscript for *Capital III*: "There are modifications to the original text on practically each page that have not been indicated. Hardly one paragraph remained as Marx had written it. Engels's modifications are not confined to 'stylistical' matters. . . . the 1894 edition was an extensive adaptation of Marx's manuscript, and Engels did not inform the readers about the true extent of his adaptation. . . . The interventions . . . offer solutions for problems which the manuscript left open . . . and in some passages they even change the argumentation of the original text, if this obstructs Engels' interpretations." See also the extensive comments by Carl-Erich Vollgraf and Jürgen Jungnickel (1994, 47) about Engels's mark on the text ("Engels left only few of Marx's sentences untouched"). Neither Vollgraf and Jungnickel nor Heinrich refers specifically to the changes I indicate in this article. Of course, to be attentive to specific changes is a matter of interpretation itself—specific changes in line with one's own interpretation may be envisaged as stylistic or near to that.

The Marx-Engels text reads:

So wirkt das Gesetz nur als Tendenz, dessen Wirkung nur unter bestimmten Umständen und im Verlauf langer Perioden schlagend hervortritt. (E, 249)<sup>20</sup>

Untermann's translation is closer to the German (Fernbach's "decisive" is rather dubious):

Thus, the law acts only as a tendency. And it is only under certain circumstances and only after long periods that its effects become strikingly pronounced. (U, 239)<sup>21</sup>

This can be read in two ways: (1) only in the long run can the rate of profit be perceived to fall; hence "the law as such" is dominant; (2) the rate of profit falls in particular circumstances, namely, when the forces set out in the tendency-law indeed dominate the countertendencies (my interpretation of the German text is this second one).

After this, Marx (M, 309–40) goes into the issues that Engels has placed in chapter 15, although in a different order. Note again that the manuscript is continuous: there are no indications for chapter/section breaks.<sup>22</sup> I have selected a number of passages from it that seem important. Much emphasis is on an issue introduced at the very beginning of the text: that increases in the productivity of labor via an increase in the organic composition of capital result in a combined increase in profits and a decrease in the rate of profit. He calls this a law: "The law that a fall in the rate of profit due to the development of productiveness is accompanied by an increase in the mass of profit . . ." (U, 225–26).<sup>23</sup> At the same time, prices fall.

On page 322 of M the statement is repeated, this time leaning toward a possible interpretation of "trend":

20. The phrase "und im Verlauf langer Perioden" is Engels's modification of what actually appears in Marx's manuscript, "und auf lange Perioden ausgedehnt" (M, 308). This is not very important.

21. See row 2 of the table in appendix 1 for a full comparison of this text.

22. I am not saying that an editor should not try to make a text more readable by structuring it. Marx's text was not ready for publication and Engels did a great job by making it ready. I argue that from the point of view of the two interpretations, Marx's original text leans more toward the view of "synthesis of par tendencies" in which cyclical development plays a prominent role, whereas Engels's editorial intervention gives more room to a theory explaining trend.

23. Engels (E, 236) replaces Marx's term *herbeigeführte* (M, 316) with *verursachte* [caused], which Untermann renders as "due" and Fernbach as "occasioned" (F, 332).

[We have seen that] as the capitalist mode of production develops, so the rate of profit falls, while the mass of profit rises together with the increasing mass of capital applied. (F, 356)

Next, Marx amplifies the issue of the depreciation of capital. One page further, though, he puts this in a different light, first rephrasing the issue in terms of a contradiction, then developing it into periodical crises:

Simultaneously with the fall in the profit rate, the mass of capital grows, and hand in hand with it goes a depreciation of the existing capital, which checks this fall and gives an accelerating impulse to the accumulation of capital-value. Simultaneously with the development of productivity, the composition of capital becomes higher[:]; there is a relative decline in the variable portion as against the constant. These different influences may at one time operate predominantly side by side spatially, and at another succeed each other in time; periodically [*periodisch*] the conflict of antagonistic agencies finds vent in crises.<sup>24</sup> The crises are always but momentary violent solutions of the existing contradictions—violent eruptions—which restore the disturbed balance. (M, 323; E, 259; F, 357; U, 249—translation is a composite of the several versions)<sup>25</sup>

Overproduction, as well as the overaccumulation and devaluation of capital, is the theme of the next pages of Marx's text. An important sentence is:

Under all circumstances, however, the balance will be restored by the *destruction of capital* to a greater or lesser extent. (M, 328; cf. E, 264; F, 362; U, 253).

24. Marx uses the term *periodisch* (see row 3 of the table in appendix 1). I don't understand why both Untermann (translating into "from time to time") and Fernbach (translating into "at certain points") fail to pick up the "periodic" reference here, especially since one paragraph further on, in the context of depreciation/devaluation of capital, they do translate *periodisch* into "periodical." *Periodisch* has a connotation of repetition/recurrence.

25. The translations have "for a time restore" and "balance for the time being." Engels has inserted the phrase "für den Augenblick." In this long quotation I have most of the time mixed the two translations. It is just not the case that the one is generally superior to the other (and this applies not merely to these chapters). I am not complaining; translation is a most difficult task, more difficult than merely writing in a foreign language (which is difficult enough). See row 3 of the table in appendix 1 for a textual comparison.

The balance will be restored!<sup>26</sup> Next Marx sets out how a crisis and its aftermath restore the rate of profit and writes: “*And so we go round the whole circle once again*” (M, 329; E, 265; F, 364; U, 255; my italics). This is of course strong enough to make the point that we have a cycle of decrease and increase in the rate of profit.

Two sentences further on, Marx makes the point in an even stronger manner by talking of a “*Zirkel vicieux*” (cf. the French: *cercle vicieux*), which Engels renders as “*fehlerhafte Kreislauf*” and the translators as “cycle of errors” (F) and “vicious circle” (U). Marx—in otherwise fully German texts—apparently feels constrained to make use of the French *vicieux*, since in French *cercle vicieux* has a double meaning, namely that of a faulty circle (the one Engels picks up in his German term) and that of an endless circle, of lasting recurrence.<sup>27</sup>

### Summary and Conclusions

Currently there are two interpretations of part 3 of Marx's *Capital III*: secular trend fall in the rate of profit versus mere cyclical development of that rate. The text as edited by Engels allows for either, although both interpretations, especially the “cyclical” one, are countered by a number of blatant inconsistencies in the *Capital III* text.

A study of Marx's 1864–65 manuscript for *Capital III*, however, changes matters. Whereas it does not exclude the trend fall interpretation, the manuscript does lean more toward the cyclical view. I reported on the different order of the texts, although it is difficult to derive hard conclusions from the different impression that makes. I also examined the phrases in the *Capital III* text that would most suggest the secular trend interpretation. Their comparison with the manuscript text allows at least for the conclusion that the manuscript text is not inconsistent with the cyclical interpretation.

It would seem, then, that Marx's name for the law—the “law of the tendency of the rate of profit to fall” (TRPF)—is rather misleading. A more appropriate name would be “theory of the rate of the profit cycle” (TRPC). However, Marx's allegiance to the TRPF wording may well

26. Note that Engels (thus the translators) takes away Marx's emphasis, although he adds “durch Brachlegung und selbst Vernichtung” (“by capital's lying idle or even by its destruction” [Fowkes translation, p. 362]). See row 4 of the table in appendix 1 for a comparison.

27. Some English dictionaries, such as the *American Heritage Dictionary*, indicate a similar double meaning for “vicious circle.” See row 5 of the table in appendix 1 for a textual comparison.

have to do with his general method of “internal critique,” since indeed “this” law (the law Marx calls the TRPF) was seen as a very important law of the classical political economy of his day. Marx reformulates it in terms of rate *and* amount of profit and shows the cyclical manifestation of “the” law: The recurrent “revolutionizing” of the organic composition of capital generates a parallel increase in the mass of profit and a decrease in the rate of profit (the upswing of the cycle); and along with a restructuring and devaluation of capital, the rate of profit gets restored (the downswing of the cycle). “And so we go round the whole circle once again.” *A Zirkel vicieux.*

### Appendix 1: Comparison of Some Key Texts in *Capital III*, Part Three, with Its Manuscript

All italics are original; all bold is emphasis added by me; all underlining is emphasis added by me, being roughly Engels’s insertions or deletions (the latter denoted with curly brackets) or major amendments or changes in emphasis in the translation.

	Marx’s 1864–65 manuscript (Marx 1894M)	Engels’s edition of <i>Das Kapital III</i> (Marx 1894E)	Fernbach translation of <i>Capital III</i> (Marx 1894F)
1	Abstrakt betrachtet, kann bei dem Fall des <i>Preisses der einzelnen Waare</i> in Folge der Vermehrung der <i>Anzahl</i> dieser lower priced commodities die Profitrate <i>dieselbe</i> bleiben, z.B. wenn die Vermehrung der Productivkraft der Arbeit <i>gleichmässig</i> und <i>gleichzeitig</i> auf <i>alle</i> Bestandtheile der Waaren wirkte, so daß der <i>Gesamtpreiß</i> der Waare in demselben <i>Verhältniß</i> der verschiedenen Preißbestandtheile der Waare <i>dasselbe</i> (constant) bliebe, <i>fallen</i> , wie in dem bisher Untersuchten, steigen wenn mit der Erhöhung der Rate des Mehrwerths eine bedeutende Depreciation der constanten Capitaltheile verbunden wäre. (Betrachtet man nur	Abstrakt betrachtet, kann beim Fall des Preises der einzelnen Ware infolge vermehrter Productivkraft { . . . }, <u>und bei daher gleichzeitiger Vermehrung der Anzahl dieser wohlfeilern Waren, die Profitrate dieselbe bleiben, z.B. wenn die Vermehrung der Productivkraft { . . . } gleichmäßig und gleichzeitig auf alle Bestandteile der Waren wirkte, so daß der Gesamtpreis der Ware in demselben Verhältnis fiele, wie sich die Produktivität der Arbeit vermehrte, und anderseits das gegenseitige Verhältnis der verschiedenen Preisbestandtheile der Ware dasselbe bliebe { . . . }.</u> Steigen <u>könnte</u>	Viewed abstractly, the rate of profit might remain the same despite a fall in the price of the individual commodity as a result of increased productivity, and hence despite a simultaneous increase in the number of these cheaper commodities—for example if the increase in productivity affected all the ingredients of the commodity uniformly and simultaneously, so that their total price fell in the same proportion as the productivity of labour increased, while the ratio between the various ingredients of the commodity’s price remained the same. The rate of profit could even rise, if a rise in the rate of surplus-value was coupled with a significant reduction in

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|---|---|--|--|
|   | <p>den <i>Preis der einzelnen</i> Waaren für sich oder mißt man bloß die Arbeit in respect to the quantity of commodity produced by it, so die Untersuchung stets schief. Es kommt alles darauf an, wie groß die Gesamtsumme des ausgelegten Capitals. . . .) (M, 319)</p>  | <p>die Profitrate sogar, wenn mit der Erhöhung der Rate des Mehrwerths eine bedeutende Wertverminderung der Elemente des konstanten und namentlich des <u>fixen</u> Kapital verbunden wäre. <u>Aber in Wirklichkeit wird die Profitrate, wie bereits gesehn, auf die Dauer fallen.</u> { . . . } In keinem Fall erlaubt der Preisfall der einzelnen Ware <u>allein</u> einen Schluß auf die Profitrate. Es kommt alles darauf an, wie groß die Gesamtsumme des ausgelegten Capitals. (E, 239–40)</p> | <p>the value of the elements of constant capital, and fixed capital in particular. <b>In practice, however, the rate of profit will fall in the long run, as we have already seen.</b> In no case does the fall in the price of the individual commodity, taken by itself, permit any conclusion as to the rate of profit. It all depends on the size of the total capital involved in its production. (F, 336–37; cf. U, 230)</p>                               |
| 2 | <p>So wirkt das Gesetz nur als Tendenz, dessen Wirkung nur unter bestimmten Umständen und auf lange Perioden ausgedehnt schlagend hervortritt. (M, 308)</p>   | <p>So wirkt das Gesetz nur als Tendenz, dessen Wirkung nur unter bestimmten Umständen und im Verlauf langer Perioden schlagend hervortritt. (E, 249)</p> <p>[chap. 13]</p>   | <p>The law operates therefore simply as a tendency, whose effect is <b>decisive</b> only under certain particular circumstances and over long periods. (F, 346)</p> <p>Thus, the law acts only as a tendency. And it is only under certain circumstances and only after long periods that its effects become strikingly pronounced. (Untermann translation, 239)</p>   |
| 3 | <p>Diese verschiedenen Einflüsse machen sich bald neben einander im Raum, bald nach einander in der Zeit geltend und <b>periodisch</b> macht sich der Conflict der streitigen Agentien in Krisen Luft. Die Krisen sind immer nur momentane gewaltsame Lösungen der vorhandenen Widersprüche und gewaltsame Eruptionen, um <b>das gestörte Gleichgewicht wieder herzustellen.</b> (M, 323)</p> | <p>Diese verschiedenen Einflüsse machen sich bald <u>mehr</u> nebeneinander im Raum, bald <u>mehr</u> nacheinander in der Zeit geltend; { . . . } periodisch macht sich der Conflict der <u>widerstreitenden</u> Agentien in Krisen Luft. Die Krisen sind immer nur momentane gewaltsame Lösungen der vorhandenen Widersprüche, gewaltsame Eruptionen, die das gestörte <u>Gleichgewicht für den Augenblick wiederherstellen.</u> (M, 323)</p> <p>[chap. 15]</p>                                     | <p>These various influences <u>sometimes tend to exhibit</u> themselves side by side, spatially; at other times one after the other, temporally; <u>and at certain points</u> the conflict of contending agencies <u>breaks through</u> in crises. Crises are never more than momentary, violent solutions <u>for</u> the existing contradictions, violent eruptions that re-establish the disturbed balance <b>for the time being.</b> (F, 357; cf. U, 253)</p> |

- 4     **Unter allen Umständen aber würde sich das Gleichgewicht herstellen** durch *Vernichtung von Capital* in grösserem oder geringerem Umfang. (M, 328)
- Unter allen Umständen aber würde sich das Gleichgewicht herstellen durch Brachlegung und selbst Vernichtung von Kapital in größrem oder geringrem Umfang. (E, 264)
- [chap. 15]
- 5     Und so würde der Zirkel von neuem durchlaufen. Ein Theil des Capitals das deprecirt war durch Stockung seiner Function, würde seinen alten Werth wieder gewinnen. Es würde übrigens mit erweiterten Productionsbedingungen, einem erweiterten Markt, und mit erhöhter Productivkraft derselbe Zirkel vicieux wieder durchlaufen werden. (M, 329)
- Und so würde der Zirkel von neuem durchlaufen. Ein Teil des Kapitals das durch Funktionsstockung entwertet war, würde seinen alten Wert wiedergewinnen. Im übrigen würde mit erweiterten Produktionsbedingungen, mit einem erweiterten Markt und mit erhöhter Productivkraft derselbe fehlerhafte Kreislauf wieder durchgemacht werden. (E, 265)
- [chap. 15]
- Under all circumstances, however, the balance will be restored by capital's lying idle or even by its destruction, to a greater or lesser extent. (F, 362)
- And so we go round the whole circle once again. One part of the capital that was devalued by the cessation of its function now regains its old value. And apart from that, with expanded conditions of production, a wider market and increased productivity, the same cycle of errors is pursued once more. (F, 364; cf. U, 255)

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Note: All of these citations have been commented upon in the main text. Some of these citations are also examples of how insertions or changes in emphasis by Engels get reinforced in a translation. For example, see the second part of citation 3: Marx has “Die Crisen sind . . . momentane . . . Lösungen . . . um das gestörte Gleichgewicht wieder herzustellen”; Engels-Marx reads “Die Crisen sind . . . momentane . . . Lösungen . . . *die* das gestörte Gleichgewicht *für den Augenblick wiederherstellen*”; Fernbach’s translation reads “Crises are . . . momentary . . . solutions . . . that re-establish the disturbed balance for the time being.”

## Appendix 2: The Tendency of the Rate of Profit to Fall in Marx’s Manuscripts: A Speculative History

It is interesting to compare the interpretation presented in the main text with Marx’s earlier writings on this issue. I will do this in the first two sections of this appendix. A quite different matter is to derive conclusions from such a comparison (see the concluding section of this appendix below). In the main part of this article I could “safely” just present textual evidence about only one text (allegedly one). Hence my conclusions could be free from any otherwise complicating matters.

When comparing texts from different periods, such freedom is no longer possible, because the comparison is then bound to be speculative. Why does an author change his or her mind? Why does an author

develop a theory in this or that way? I gladly reserve this speculative history for an appendix. Even so, speculative history in general is an intriguing aspect of historiography.<sup>28</sup>

We will see that important statements in an early manuscript of Marx on the profit rate do not appear in the later ones. From that and the change in the structure of his texts, I will conclude that Marx's views on the (tendency of the) rate of profit to fall developed from a law about the *historical destination* of the capitalist system to a theory about the *functioning* of the system.

### The First Manuscript: The *Grundrisse*

The "fall of the rate of profit" was discussed by Marx in an 1857–58 manuscript now called the *Grundrisse*. It was first published in Moscow in a very limited edition (1939–41) and then reprinted in Berlin in 1953 (the publication date usually referred to). All page references in this appendix are to the 1973 English translation by Martin Nicolaus (Marx 1953N).

This manuscript was written to aid Marx's own understanding; it was not intended for publication. The "fall of the rate of profit" is discussed in the third section of the manuscript's last notebook (Notebook 7, 745–58), its second half being comments on especially Smith and Ricardo (751–58).

The problem set and theoretical framework that the text addresses, in connection with the profit rate, seem to be very much (1) Ricardo's insufficient distinction between rate of surplus value and rate of profit and (2) the inverse relation between the amount of profit and the rate of profit (remember that this last reformulation of the law by Marx was also highlighted in the manuscript of *Capital III*). It is after having set out this inverse relation that Marx uses the term *law*:

This is in every respect the most important law of modern political economy. . . . It is a law which, despite its simplicity, has never before been grasped and, even less, consciously articulated. (Marx 1953N, 748)<sup>29</sup>

28. In fact one of the anonymous referees of this journal challenged me. But of course this speculative history is fully my own responsibility.

29. A similar sentence appears in the later manuscripts.

Marx then sets out how “the development of the productive forces” (or “powers of production”) is accompanied by a relative “decline of the part of the capital . . . exchanged for immediate labour” (cf. equation (1) above—the concept of the “organic composition of capital” is not explicitly stated in this text, but the gist of it is described in various wordings). This process,

when it reaches a certain point, suspends the self-realization of capital. . . . Beyond a certain point, the development of the powers of production becomes a barrier for capital; hence the capital relation a barrier for the development of the productive powers of labour. When it has reached this point, capital, i.e. wage labour, . . . is necessarily stripped off as a fetter . . . to give room to a higher state of social production. (749–50)

These wordings clearly remind one of the work Marx did in his youth with Engels, *The German Ideology* (1845–46), and of their 1848 political pamphlet, *The Communist Manifesto*. The 1857–58 manuscript is far removed from the manuscript of *Capital III* and my interpretation of it. Even though on the last page (up to the comments) Marx moves on to the key crisis theme of the later manuscript, its context is different. He writes:

These contradictions [of development of the powers of production] 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*. . . . Yet, *these regularly recurring* catastrophes lead to their repetition on a higher scale, and finally to its [capital’s] violent overthrow. (750; my italics)

Especially the last sentence points at a trend-wise development. Immediately after the text just quoted, Marx writes, “there are moments in the developed movement of capital which delay this movement other than by crises,” and he next discusses these in about half a page (in hindsight one might think of these as the “antediluvian” counteracting forces).

We may conclude that in the *Grundrisse* Marx adopts the view of the “trend fall” in the profit rate. Crises as well as a number of other factors *delay* this trend fall. Moreover, the trend fall in the rate of profit is connected with the “overthrow” of the capitalist mode of production.

It seems relevant to note that, unlike in the later two manuscripts (i.e., the one discussed hereafter and the one discussed in the main text), Marx's "own" discussion in the earlier pages (pp. 745–51) is *not* cast in terms of a tendency (it does appear in the comments of the second part; it also appears in a later reference back to the law on page 763).

### The Second Manuscript

We now move on to Marx's 1861–63 manuscripts (MEGA II, Band 3, Teile 1–6, Berlin, 1976–82). A second main text on the (tendency of the) rate of profit to fall can be found in section 7 of Marx's Notebook XVI, dated December 1861–January 1862. All citations in this appendix are from Ben Fowkes's 1991 English translation, which appears in volume 33 of Marx's *Collected Works*, pages 104–45.

This text—even more so than the *Grundrisse* text—has much the character of notes intended to aid the author's understanding. The relevant statements concerning the rival interpretations of the *Capital III* text about the development of the rate of profit are to be found early on in the manuscript (pp. 104–12). First of all the reference is again to classical political economy: "This law, and it is the most important law of political economy, is that the *rate of profit has a tendency to fall with the progress of capitalist production*" (104). Note this is now immediately cast in terms of a "tendency." Then Marx asks himself, "So where does this tendency for the general rate of profit to fall come from?" (i.e., what is its explanation?). Next, after a few lines on "the Ricardian and Malthusian school," Marx immediately refers to a—or *the* (?)—cyclical empirical expression of the law:

But apart from theory there is also the practice, the crises from \*superabundance of capital or, what comes to the same, the mad adventures capital enters upon in consequence of the lowering of {the} rate of profit. Hence crises—see Fullarton—acknowledged as a necessary violent means for the cure of the plethora of capital, and the restoration of a sound rate of profit.\* (105)<sup>30</sup>

*Restoration* of a sound rate of profit. Note that both the "their repetition on a higher scale" and the "finally . . . its violent overthrow" of

30. Passages between asterisks appear in English in the German manuscript. Passages in curly brackets are added by the editors; often they are reconstructions of illegible handwriting, as in some quotations to follow.

the *Grundrisse* text have disappeared (from here and the rest of this text).

After analyzing the factors that might cause the general rate of profit to fall, especially a fall in the absolute magnitude of surplus value and a fall in the ratio of variable to constant capital, Marx states:

But the law of development of capitalist production (see Cherbuliez, etc.) consists precisely in the continuous decline of variable capital . . . in *relation* to the constant component of capital. (106)

Next he indicates that “the development of the productive power of capital” is key to the law and that this “implies, at the same time, the concentration of capital in large amounts at a small number of places” (107–8). This is followed by an explicit statement about the two factors of the law that work against each other, that is, the rate of surplus value and the composition of capital:

Both movements not only go {hand in hand} but condition each other. They are only different forms and phenomena in which the same law is expressed. But they work in opposite directions, in so far as the rate of profit comes into consideration. (109)

Subsequently, Marx indicates that “for the rate of profit to remain the same” these factors “would have to grow in the same ratio” and continues:

This is only possible within certain limits, and that it is rather the reverse, the tendency towards a fall in profit—or a *relative* decline in the amount of surplus value hand in hand with the growth in the rate of surplus value—which must predominate [for the law to hold?], as is also confirmed by experience. (110; insertion in square brackets is mine)

Further on we read:

If one considers the development of productive power and the relatively not so pronounced fall in the rate of profit, the exploitation of labour must have increased very much, and what is remarkable is not the fall in the rate of profit but that it has not fallen to a greater degree. (111)

In terms of the rival interpretations, these passages on pages 110–11 are the most puzzling. It is not obvious what is meant by “confirmed

by experience”: is it a reference to the experience of a trend fall, or the experience of a phase of the cycle (that is, the upturn phase) in which the law predominates? This last interpretation is plausible in light of the “restoration” text quoted above (from page 105). This seems to be confirmed two pages further on:

This fall in the rate of profit leads to . . . a rise in the level of concentration of the means of production. . . . Once it has reached a certain level, this rising concentration in turn brings about a new fall in the rate of profit. (112)

The general impression this manuscript gives is that Marx is wondering and searching for a conceptual framework. The remainder of the text (pp. 113–45) is an analysis of the connections between the relevant concepts at stake: rising labor productivity together with a rising organic composition of capital; rising rates of surplus value; profit; and the rate of profit. Often the analysis is carried by way of (tedious) numerical examples. In general the text is unsystematic; indeed it is comprised of notes.

#### A Speculative History: In Conclusion

Marx begins his study of this issue from the empirical “law of the falling rate of profit” of the political economy of his days. He is intrigued by it—especially, I presume, because from the works of his youth onward he sees the capitalist mode of production as a *historical* mode of production that may be overcome. When it comes to the explanation of the law, he is not satisfied with the arguments put forward by especially Smith and Ricardo. Hence he comes up with his own explanation for a fall in the rate of profit (i.e., a rise in productivity!) and reformulates that law as one of a combination of two things: a decrease in the rate of profit and an increase in the amount of profit (in the final version, this is the stuff of chapter 13 of *Capital III*). Already in the *Grundrisse*, Marx has found this explanation (beyond Smith and Ricardo) and reformulation; the later manuscripts merely improve on it.

Having found this explanation, Marx wonders (starting already with the *Grundrisse*): If this were all, then we should expect a much faster fall in the rate of profit empirically. Hence, there must be factors delaying the fall. Some of these are mentioned in the earlier two manuscripts, but they gain full prominence only in the *Capital III* manuscript (chapter

14). Consequently, for Marx the law is now a tendency law (“Thus, the law acts only as a tendency”).

Then from the 1861–62 to the 1864–65 manuscript it seems that Marx gets more and more convinced that economic crises do not merely play a “delaying” role (as in the 1857–58 text), but are the heart of the matter. My hunch is that by that time he had come to deeply understand economic crises.<sup>31</sup> Hence, in the *Capital III* manuscript he reformulates the “systematic” of the theory—the entry point of the theory, the interconnections and how they connect, the order of the presentation of the relevant issues within the theory. The concept of as well as the term *crisis* no longer appears in either the exposition of the tendency law (chapter 13) or that of the countertendencies (chapter 14).<sup>32</sup> They have been moved to the synthetic part of the text (chapter 15). Economic crises now are the “violent *solutions* of the existing contradictions” (cf. F, 357; U, 253; my italics).

Consequently, in the exposition of the law—or any other part of the text—any reference to an “overthrow” of the mode of production has disappeared (as it had already in the 1861–62 text). Instead, the confines of the capitalist mode of production are twofold: (1) a rise in productivity generates a decrease in the rate of profit, and this decrease must be overcome again and again through crises; (2) production does not cease when the need for goods is satisfied, but when the realization and production of profit require this—that is, capitalist production adheres to a mandate of its own, and that mandate has little or nothing to do with meeting the production needs of society (Marx 1894M, 332; cf. 1894E, 268; 1894U, 258; 1894F, 367).<sup>33</sup>

31. Chapter 15 of *Capital III*—with its interconnected notions of the depreciation of capital, of the concentration and centralization of capital, and of “*neue Kombinationen*” [new combinations]—in fact witnesses that insight.

32. With one exception (Marx 1894F, 331) in a different context.

33. On (1) Marx writes: “Die Schranke der kapitalistischen Produktionsweise tritt hervor: 1. Darin, daß die Entwicklung der Produktivkraft der Arbeit im Fall der Profitrate ein Gesetz erzeugt, das ihrer eignen Entwicklung auf einen gewissen Punkt feindlich gegenübertritt und daher beständig durch Krisen überwunden werden muß” (E, 268; cf. M, 332). Note that the German *Schranke* [confines, barrier] also has a connotation of taking to court. I am not altogether happy with the standard English translations of this text; in perhaps more clumsy English I would suggest: “The confines of the capitalist mode of production come to the fore: 1. In that the development of the ‘forces of production’ of labour generates a law of falling rate of profit which at a certain point confronts this development itself antagonistically, and hence must be overcome continuously [again and again] through crises” (U, 258 and F, 367; translation amended).

Thus we see in Marx's views a movement from a law about the *historical destination* of the capitalist system to a theory about the *functioning* of the system. Note that this is no accident: it is consistent with all of *Capital*, in which—contrary to what some textbooks say about it—one finds no references to an overthrow of the capitalist system, and of the 2,200 pages perhaps 5 refer in passing to some future society. I am not saying that the evolution to that future society was no concern of Marx; I suggest that he no longer had mechanistic-economistic views about it.

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