

On the Law of the Falling Rate of Profit: A Reinterpretation

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This paper demonstrates that Marx's law of the falling rate of profit holds only if investment falls short of saving. A rising organic composition of capital is not found to be the direct cause of the falling rate of profit but rather a condition that makes it more difficult for investment to keep pace with saving. The paper also brings out the connection of the law of falling profit with the business cycle phenomenon. A rising organic composition of capital is found to exacerbate cycles. The paper concludes with the suggestion that a synthesis between the theories of Marx and Keynes will better explain real world crises.

The 80th anniversary year of the Great Depression has arrived with the ominous prospect of yet another depression which in well founded speculations could be a 'Greater Depression'. Economic bibliographers are likely to find references to the names and works of two great economists, Karl Marx (1818-1883) and John Maynard Keynes (1883-1948), becoming increasingly frequent. Indeed, more thorough research might reveal a systematic countercyclical pattern in the references to their work with declines during periods of economic prosperity and rebounds on the recession. Of course, considerable allowance must be made for the fact that while the name of Keynes can be mentioned more openly without fear of getting cold and hard stares, that of Marx must be mentioned in hushed tones after looking around furtively to make sure that citizens of the genteel society are not snooping.

Economists, particularly economist theorists, have of course always known the profound similarities and contrasts between the theories of Marx and Keynes (Fan-Hung 1939, Robinson 1941, Shigeto 1954). On the side of similarities are their use of national economic aggregates as the central variables of their theories, their repudiation of Say's law or suchlike devices that allegedly operate to expeditiously self-correct disequilibria, their repudiation of the quantity theory of money and of the classical theories of interest rates and the alleged ability of interest rates to correct capital market disequilibrium, their prognostication that capitalist economies, though fundamentally driven by the instinct to invest and grow, are prone to recurring periods of stagnation. The differences between their theories and philosophies are equally profound; while Marx theorized about the gross national product, Keynes confined himself to the