

PROFITS AND INVESTMENT.

How annual changes in circulating investment exceeds changes to fixed investment.

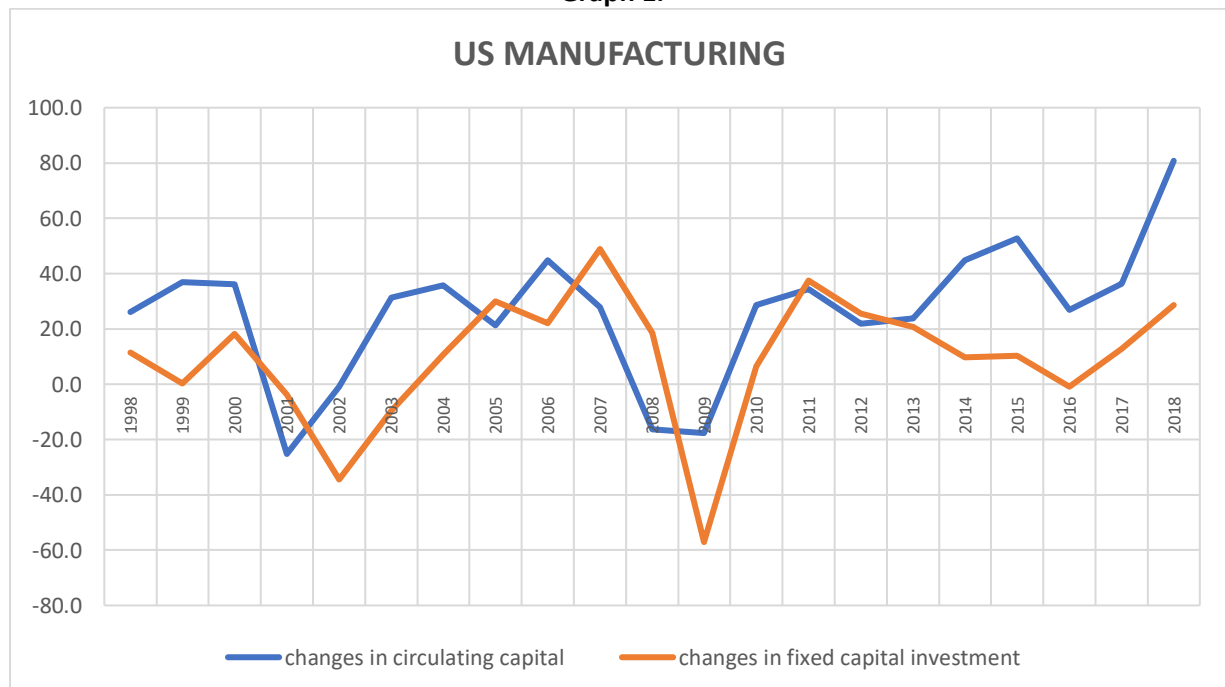
There is a debate to be found on Michael Roberts website in a posting titled “*It is all going Pear-Shaped.*” <https://wordpress.com/read/feeds/313842/posts/2389310568> relating to the link between profits and investment. Both Michael and I agree that it is the direction of profits that dictates the direction of investment. This has been disputed by others such as Jackrasmus.

Where Michael and I differ is on the question of the missing link: circulating capital. He refuses to accept the turnover formula and consequently joins the nation of one-eye. This short posting seeks to show the importance of circulating capital, which changes in absolute terms by more than annual changes to fixed investment. This is because in absolute terms, circulating capital which has to be replenished after each circuit is many times bigger than annual fixed investment. This can be seen from the accompanying worksheet used to prepare the graphs titled: “COMPARING CHANGES: circulating vs fixed capital.”

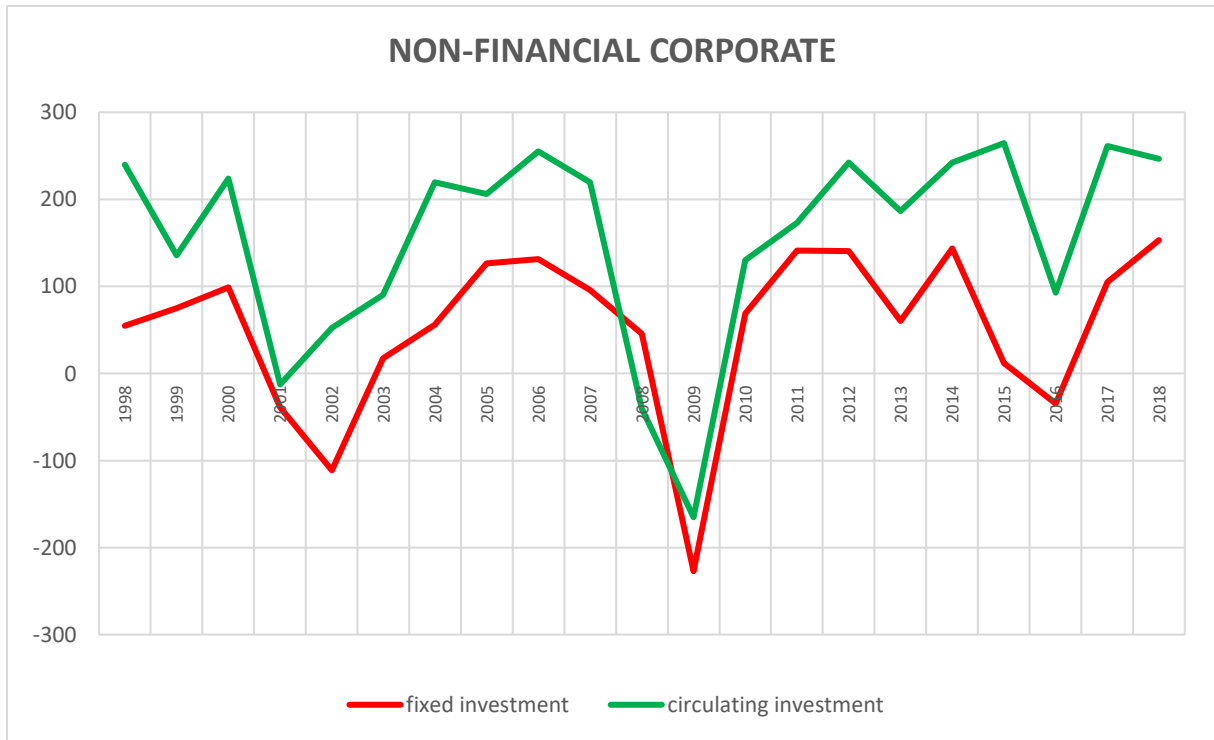
The following four graphs are self-explanatory. The first two compares changes to investment between the two forms of capital, and the latter two to the absolute difference between the two on an annual basis. It is not my intention here to interpret the rhythms or variation in rhythms. I will do this under the discussion following the release of Q2 profits where I will examine quarterly changes which are more accurate and predictive. I will also link these movements to movements in profits to establish sequencing.

The intention here is simply to show that circulating capital cannot be left out of the equation and that leaving it out weakens the link between profits and investment. I will conclude on this point. The movement of circulating capital in the graphs is consistent with Marx’s predictions.

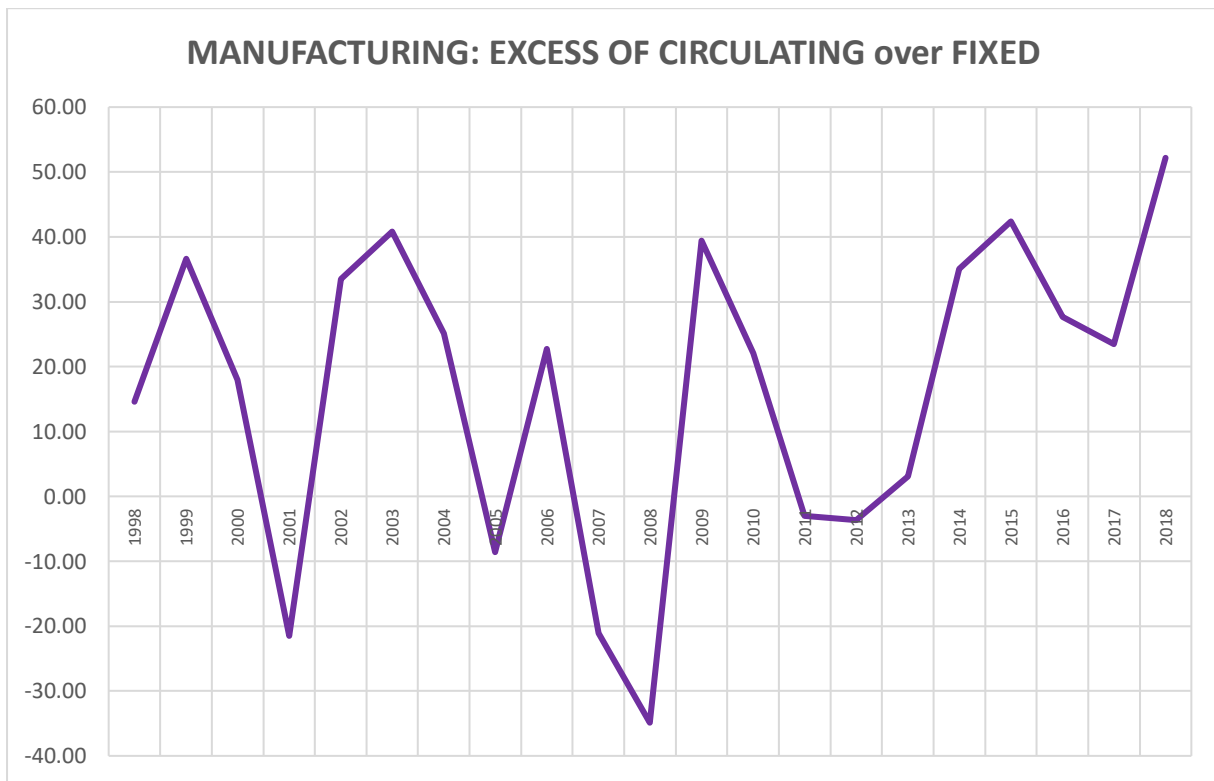
Graph 1.

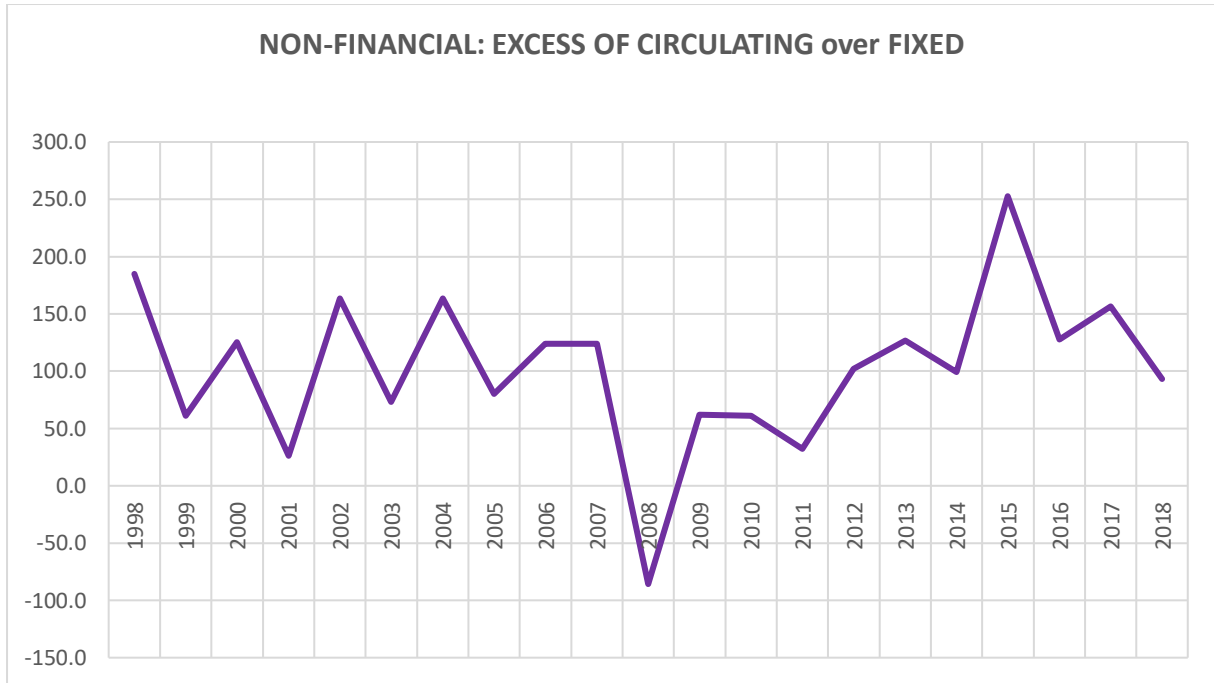


Graph 2.



Graph 3.





The reader is reminded the formula for turnover is $GO/GVA+(GO-GVA)/GVA$ where GO stands for gross output and GVA for gross value added. The formula for working capital is $(GO - \text{Net Surplus})/\text{turnover}$ where GO stands for annual gross output and the Net Surplus for annual net surplus or net output minus compensation of workers. Another way of determining the amount of working capital is: $(\text{annual intermediate sales} + \text{annual compensation of workers})/\text{turnover}$. I can assure the same sum of working or circulating capital is arrived at using either formula. The second iteration is however easier to understand because it amounts to inputs plus wages.

Brian Green, August 2019.