ONCE MORE ON WILLIAM JEFFERIES CREATIVE ARTICLE ON THE RATE OF PROFIT AND HIS NEO-CLASSICAL CRITICISMS.

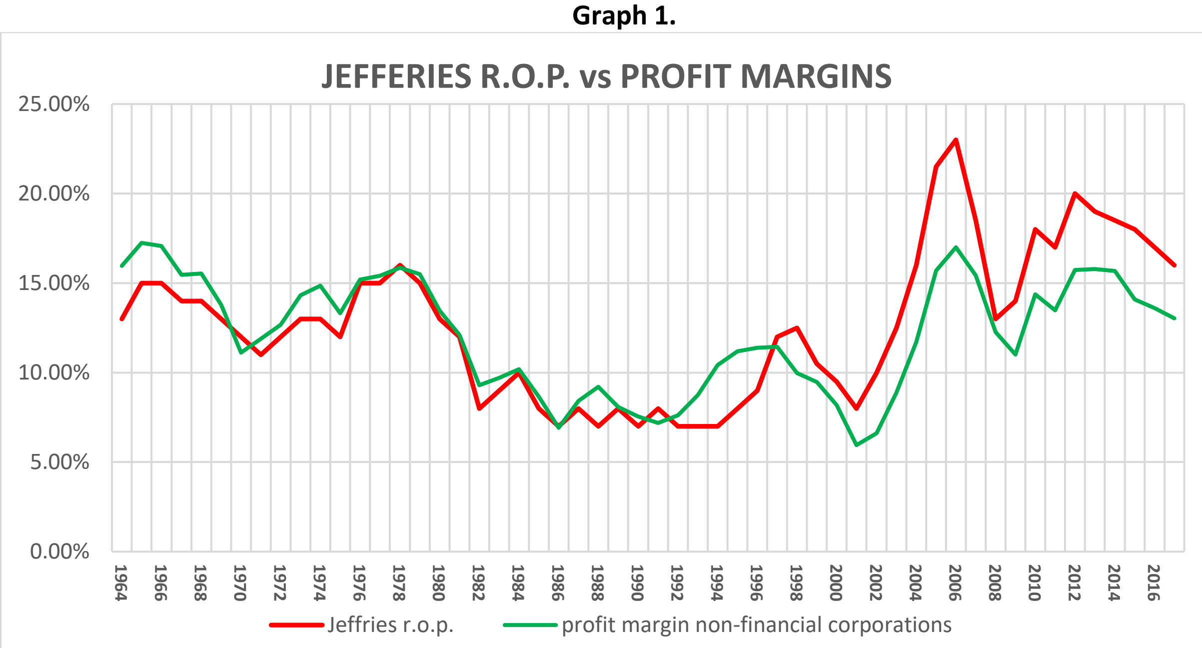
I was able to download the original article: ***The US rate of profit 1964–2017 and the turnover of fixed and circulating capital*** *by William Jefferies First Published April 14, 2022. By doing so I was able to follow the links and examine his source data. https://doi.org/10.1177/03098168221084110.*

In this article Jefferies criticises all the previous estimates of the rate of profit as being victim to neoclassical hokery pokery. As he said in his article the result is an error of 460%. *"On average the BEA figures overestimate the depreciation period by 460% or GDS (MACRS)/H&W is around 22%, which confirms the proportion of the IRS Depreciable Assets Less Depreciation to the BEA historic fixed capital stock referred to above (Jefferies, 2021)."* This is like epidemiologists saying that they have found someone who is 500 years old.

This being so, surely red flags should have been raised by the editors and referees of *Capital and Class* as to this incredible find. But perhaps like all academics they are under pressure to produce and publish papers which are original, innovative, re-interpretive, which renders the subject matter more profound, and all the other much and cruck which justifies their tenure or editorship.

In fact so incredible is Jefferies discovery that it overturns all the assumptions made by Marx which drives the tendency for the rate of profit to fall, in particular the rising composition of capital. Not only has the US Inland Revenue Service failed to tax the top 1.0% it has provided the wherewithal to render Marx irrelevant. I demonstrated Jeffries unbelievable claim in Graph 5 in my original critique.

Graph 1.



Both graphs use the same numerator, non-financial corporate pre-tax profits. As profits are common to both graphs it allows us to compare the capital advanced as calculated by Jefferies to revenue or c + v + s. For the rate of profit to exceed the profit margin, it means that the capital advanced must be smaller than the revenue generated. Let us go a step further. The c in c + v + s is 15% of the total. Bear that number in mind. However, when we calculate the difference between capital advanced and revenue it is -26%. It therefore follows that after setting off both numbers, the capital advanced to living labour expended is minus 11, a most peculiar result. (In fact in 2013 as the value of output was $8.374 trillion while Jeffries fixed capital figure was $4.240, his capital to output ratio was a mere 0.51. No accumulation then!)

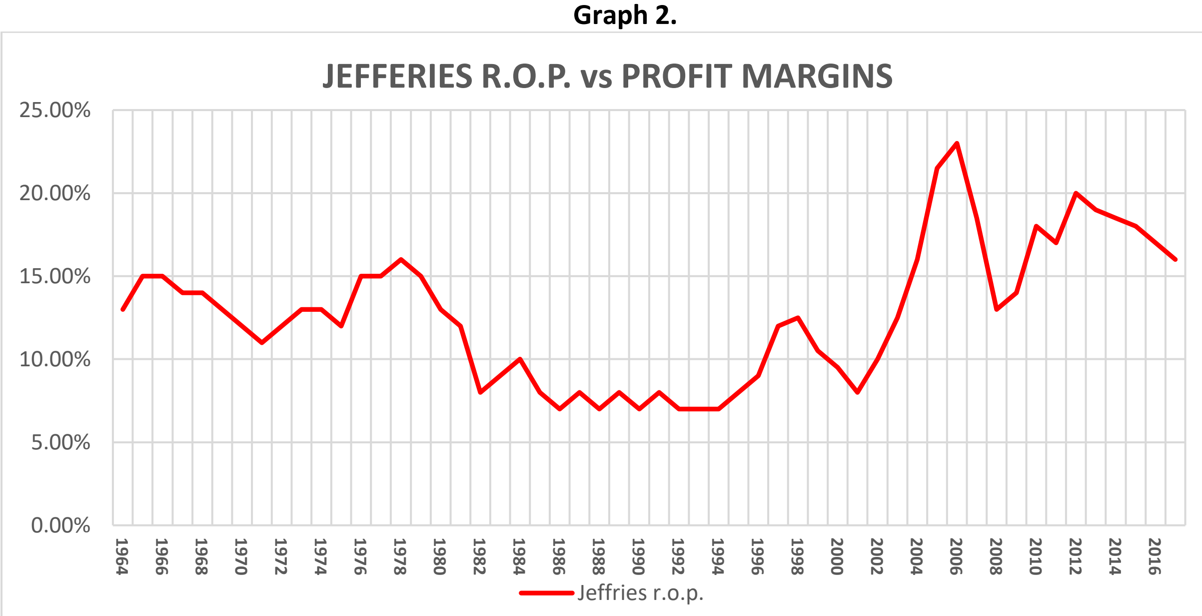
-11 it rolls off the tongue. The capital to output ratio is negative. This implies a fall in the composition of capital not a rise. Somehow between 2002 and 2014 there was a reversal in the composition of capital, a diminution in accumulation. Or possibly and more logically there was a 460% mistake in calculating that capital. There was and I can prove it. I have attached the most recent Table 4 spreadsheet produced by the IRS used by Jeffries. Based on my calculations there is only a 6 - 10% difference in its figures compared to the BEA Fixed Asset Table 4.1 or $13,947,000,000 compared to the IRS figure of $12,585,610,525.

Note this is 40 times smaller than the figure provided by Jefferies. I asked him whether he had made the mistake of taking line 24 as his starting point rather than line 27, but he replied he was "happy with his calculations". This is a simple error to make unless one has accounting experience because depreciable assets less accumulated depreciation can be interpreted as the figure resulting from deducting accumulated depreciation from the former figure. Only on this basis can the divergence of 460% emerge.

This article follows lengthy and intricate email exchanges between us on this matter in the Zoom email thread to the group Reading Marx's Capital. I acknowledged that revaluations took place, but my main concern was to quantify these revaluations. I continuously pointed out that the SNA (National Accounts) was based on market prices, that is actual existing prices of production, which bore down on these revaluations inhibiting them. That, therefore, while these revaluations were indeed neo-classical, there order of significance was low. He would not listen, adopting a one-sided approach to this issue. In any case, earlier, I had pointed out the core data used by the BEA had come from the IRS NIPA Table 7.13.

Another example demonstrating the uselessness of Jefferies calculations is exemplified by his actual rate of profit for the period. It is this rate of profit which is the end goal of his paper.

Graph 2.



The problem with itsy-bitsy denominators is that changes to the numerator - in this case profits - has an outsize or magnified effect on the rate. This explains the 300% rise in the rate of profit in the four years between 2002 and 2006. Yes Jefferies did capture a significant event, albeit exaggerated, and that was the transfer of value from China which boosted US profits. I have calculated the extent of this transfer which can be found in my article on Carchedi and Roberts which examines their estimation of the extent of this transfer.

There are two further issues I will deal with briefly. Jefferies is correct to introduce circulating capital. Unfortunately, his methodology is wrong, and because it underestimates turnover it overestimates circulating capital, meaning that without circulating capital, his denominator in the rate of profit, fixed + circulating capital, would be even more outrageous. What he does is to divide gross output by gross value added. He calculates circulating capital by subtracting bills payable from bills receivable. Bills payable is attached to input prices and bills receivable to output prices. Output prices exceed input prices by the value added to production. Thus subtracting the one from the other yields GVA, hence his denominator is GVA, whereas the normal denominator for inventory turnover is cost price, which being smaller yields a faster annual turnover.

The second issue has to do with market values. There is an issue with the valuation of the stock of fixed capital. Depreciation is taken from embodied value, or what is the same thing, historical prices, prices in the year of their production. However, over time production is cheapened, and as the weight of this cheaper production (reproduced values) increases, so it reduces the market value for that investment product. I will be introducing this topic in the Zoom meeting of the group above on the 26th June, and I also intend to publish this introduction on this site beforehand. Thus from a statistical point of view there does need to be some revaluing of the stock of capital.

The statistical bureaus are aware of this pricing phenomena and they seek to adjust for it. But they utilise the wrong method to solve a real problem. Here William Jeffries is right, their adjustment is based on future cash flows. It is neo-classical, but the extent of this adjustment has been exaggerated by Jefferies. If the adjustment ranges between 6 & 10%, it is still far lower than the 25% contribution to total capital once circulating capital is included. Hence, the rate of profit has been less effected by the neo-classical adjustments than it has been by the failure of Marxists to include circulating capital in their profit calculations.

Conclusion.

In 2013 Jefferies uses a figure of $4240 billion as his estimate for Fixed Capital which is only 30% that of the BEA's estimate. However, that figure is ominously close, at three quarters, to the figure of $5764 billion provided by the IRS when one subtracts "accumulated depreciation" from "depreciable assets". In my opinion Jefferies begins with the wrong number (carry over number) so the whole chain of his calculations is misaligned. To illustrate this I have attached Jefferies' own spreadsheet.

William Jeffries paper should be withdrawn. It is not only fundamentally flawed, but flawed to the extent that it actually damages Marxian categories.

Brian Green, 2nd June 2022.