Chapter 7

Conclusions

The purpose of this dissertation is to build the basis for the development of Marxian macroeconomics. This has been done using the critical application of Marxist crisis theory and modern orthodox macroeconomics. The framework was one of dynamic disequilibrium theory where forces inherent in capitalist society prevent the persistence of equilibrium growth for any long period of time. The investment process is crucial: competition among capitalists and class antagonisms drive each capitalist to invest in order to survive, inducing the system to run against the barriers that exist because labor-power is not produced capitalistically, because raw materials are produced abroad and with medium-term diminishing returns, and because investment does not pay off immediately and are not necessarily of the correct aggregate mix. These barriers cause a fall in the rate of profit and, eventually, a slowing of accumulation. The stagnation that follows has the functional result of cleansing from the system the imbalances that depressed the rate of profit. But this stagnation also creates the possibility that the economy will sink into an underconsumption trap where rising potential profit rates imply a greater increase in saving than investment.

This story allows us to sketch a hypothetical business cycle that is "open" at both ends. The duration of the expansion is indeterminate, but under certain conditions the longer the expansion continues the worse will be the crisis. At the other end, the stagnation may mean recovery or collapse. This story is very different from that of the multiplier-accelerator theory (of Samuelson, 1939; Metzler, 1941; and Hicks, 1949). First, investment does not passively respond to demand as the
accelerator theory would have it. Both investment and saving depend on
the rate of profit while aggregate investment results from active com-
petition among capitalists. Second, this story is not deterministic
and cannot be approximated by a rigid business cycle models. It is in
many ways closer to the over-investment models of the classic business
policy can affect both the form and timing of the cycle. Third, this
theory is framed in a broader sociological context where institutions
and power play a role.

The open-ended business cycle was modelled in two ways. First, a
simplified version adapted from the post-Keynesian analysis and Kaldor's
(1940) business cycle model was presented. At the center was the con-
flict between individual decision-making and aggregate results plus the
induced component of investment. Second, a more mathematical version
was developed. This allowed us to first, demonstrate the basis of the
equations of the first model, second, sketch the cycle in greater
detail, and third, compare these results with empirical data.

Some of the equations were used to develop a Marxist theory of
inflation. Inflation is a substitute for the purging of profit-
derpressing imbalances from the system. But it is a substitute which
does not solve — and may intensify — the problem.

The implications for policy are that, first, state policy is
inadequate to abolish crisis tendencies within the capitalist mode of
production, and second, though the form and timing of the cycle can be
changed, state policy in general simply shifts the problem in time or
space. Domestic state-planned capitalism, for example, can intensify
international crisis tendencies. Keynesian high employment policies,
by short-circuiting the cleansing role of stagnation, can have bad results in the long-term as imbalances (labor's strength, inefficient factories) accumulate. While a perfect counter-cyclical demand-management policy is in theory possible, it was argued that political forces push the government toward policies of the "quick fix." When the potential rate of profit is relatively high, both capital and labor favor high employment policies. This "Keynesian Consensus" is the basis of the long term accumulation of imbalances. Keynesian policies are also weakened by international complications.

The empirical evidence presented primarily concerns the supply-side rather than the demand-side of the model. Contrary to post-Keynesian analyses, supply-side factors help determine the fluctuations of the rate of profit in the business cycle. Conflict plays a role in the inflationary process while buoyant accumulation creates the conditions that squeeze the rate of profit. The key variables, that is, the gross margin, the terms of trade, the capacity-capital ratio, and the rate of utilization in general move as predicted by the model.

More empirical research needs to be done. Though Nahm and Sherman (1979a) show a positive correlation between investment and the lagged rate of profit, more sophisticated techniques are in order. And an important question is suggested: does investment become more responsive to the profit rate as the rate of capacity utilization increases (as the model suggests)? Also, more effort is needed to separate the role of government expenditure from that of investment in the cycle.

Further research on the fluctuations in the rate of profit is necessary. The cyclical determinants of the potential rate of profit
should be linked more clearly to the ups and downs of investment. The r curve can be sketched from such an investigation. The discussion of inflation in chapter 6 suggests that as the potential rate of profit falls, the measured natural rate of unemployment should rise. This connection requires further investigation. Finally, the political economy of the fall in the potential rate of profit needs more work: to what extent has productivity stagnation contributed to the fall? and to what extent did Keynesian demand-management contribute to this stagnation?