Appendix B: Labour?

An appendix to Dave Elder-Vass, *Hyperbolic Profit* (2026), Cambridge University Press.

'Hyperbolic Profit Appendix B: Labour?' © 2026 by Dave Elder-Vass is licensed under CC BY-NC-ND 4.0. To view a copy of this license, visit https://creativecommons.org/licenses/by-nc-nd/4.0/

Abstract: This appendix explains and criticises theories of profit related to the Marxist tradition in political economy, and heterodox traditions in economics.

If there is a common theme to critical theories of profit, it is to *question* or *doubt* the legitimacy of profit under capitalism. This is most striking in the work of Karl Marx and his followers, the focus of the first two thirds of this appendix. The first third explains and criticises his labour theory of value, the foundation of his views on profit. For Marx, profit is derivative from *surplus value*, which itself arises from the exploitation of labour, and the capitalist economy is best explained in terms of the determinants of value, surplus value, and their movements. The purpose of such analysis is to expose the exploitative and crisis-ridden character of capitalism and thus advance its overthrow by the working class. Profit, as a kind of misrecognised shadow of surplus value, is both a symptom of exploitation and, when it declines, an indicator of crisis. The end goal of such work is nothing less than the elimination of surplus value, and thus profit, and the capitalist class that extracts it.

Marxist approaches to profit, however, fall into two significantly different groups, which are discussed in the second third of the appendix. On the one hand we have Marx's labour theory of value and, built on its foundation, the law of the tendency of the falling rate of profit. Rather like the neoclassical belief that the concept of the competitive market provides a master key to explain everything that occurs in the economy, this strand of Marxism sees value and surplus value as a master key for understanding the whole capitalist economy including the existence and scale of profit, the distribution of income, and the dynamics of the system as a whole. Many contemporary Marxists, however, have doubts about the labour

theory of value and turn to a different thread of Marx's work for the analysis of profit. In this thread, Marx applied the concepts of overproduction or underconsumption to provide a macro-level theory of the dynamics of the capitalist economy that does not depend directly on the labour theory. This is primarily a theory of periodic economic crises in the capitalist system, but the macro rate of profit operates as a key variable in the mechanisms that are thought to bring about (and end) periods of crisis. It is both more promising but also much less ambitious than the theory of the falling rate of profit (and illustrates the point that there are other useful elements of Marx's work even if his theory of value is untenable).

Non-Marxist heterodox economic theories tend to challenge the neoclassical model and its defence of market systems rather than challenging capitalism directly. Typically, their political orientation is to favour social democratic systems of regulation and partial state ownership. These approaches, covered in the last third of the appendix, tend to be less ambitious, each attempting to explain only one aspect of profit. First, we will look at the concept of imperfect competition (or monopoly), which several heterodox scholars have seen as a more plausible alternative to the neoclassical tradition. Then we discuss the implications of Keynesianism for profit – this is another macro-level theory of the dynamics of the capitalist economy though with a somewhat different set of implications than the Marxist version. The final section of the appendix introduces the tradition of economic sociology, via a recent paper by Sascha Muennich that positions profit as *social rent*.

Although I will put my own spin on the argument, this appendix is not intended primarily as an original intervention into these questions. The purpose, as with Appendix A, is to make clear why the existing theories of profit are unsatisfactory, and I will mostly be invoking arguments from the existing literature to make that case. Ultimately the objective of these papers is to clear the ground for a new approach while also identifying some fragments of existing theory that may still have a useful role in any new theory of profit.

Value, surplus value and profit

As with neoclassical theories, we cannot make sense of Marxist theories of profit without investing a little time in understanding the underlying theoretical framework. Again, there are strong reasons to reject some of the key elements of the framework. Again, there have been many previous discussions of these issues, which I will only touch on here. Again, I have written about the framework and its faults before (Elder-Vass, 2016, pp. 61–9, 2022, pp. 24–30) but return to it here for the convenience of the reader and to orient the explanation

to the issue of profit. And again, readers who are familiar with the framework could skip to the next section, and those who already reject the labour theory of value could skip to the section on the law of the falling rate of profit.

Marx's political economy seeks to uncover the laws of motion of capitalism, while also providing a basis for the critique of capitalism as a system. It starts, in the opening pages of volume one of *Capital* (Marx, 1954) from the nature of commodity exchange under capitalism – in one sense, the same focus as the neoclassicals, although the framework and the terminology are different. Marx asks how it is possible that commodities can be exchanged and argues that this requires that they have commensurable values: we must be able to say that x units of one commodity is equivalent to y units of some other commodity, or indeed z units of money. For this to be possible, he argues, there must be something that different commodities have in common, but in varying quantities, that allows their exchange values to be compared (he typically uses the term *exchange value* interchangeably with *value*). He asserts that different commodities have very different uses, or to put it differently their *use values* are qualitatively different and so cannot be compared quantitatively (Marx, 1954, p. 45). The only thing they all have in common is that they are products of labour, and therefore he concludes that their differing exchange values must be the consequences of, and expressible as, the quantities of labour time *required* to produce them (Marx, 1954, pp. 45–6). This may vary from the amount of labour time actually used to produce a particular item, for example if the worker was inefficient or inadequately trained and so took longer than necessary. Hence the value of the commodity, for Marx, does not depend on the actual labour time but rather on the time that is "socially necessary for its production" (Marx, 1954, p. 47).

So far, his argument is drawn largely from the work of the earlier economist David Ricardo, but Marx introduces a key innovation, which is to see the value of labour itself in the same terms (McLellan, 1980, pp. 89–91). Production requires capitalists to buy the labour power of workers, and Marx argues that the value of labour power is also expressible as the quantity of labour required to produce it. Workers, in other words, must be paid a wage that will enable them to sustain themselves and their capacity to work, and over the long term the system will only be able to reproduce itself if this wage is sufficient to cover the cost of producing new workers – hence it must cover the cost of raising a family and providing for education and health (Marx, 1954, pp. 167–8, 188). The wage, then, reflects the cost, in labour time, of producing labour power (Marx, 1954, p. 168).

This enables Marx to compare the value of the worker's product with the value of the worker's labour power. He claims that the whole product can always be attributed to labour.

Capital goods such as machines may seem to contribute, but this is really the labour that was expended in producing the machines themselves being used up. Hence, rather than both labour and capital contributing to production, it is only the living labour of the current workers plus the "dead labour" of previous workers embedded in the machines that is productive. The value of the product, however, need not match the value of the labour power that is used up in producing it, and the capitalist's objective is to produce things whose value exceeds the value of the labour power used by making workers do more work than is necessary to cover the labour cost of their labour power. Marx introduces the term *surplus value* to refer to the difference between the value produced and the value of the labour power used to produce it (Marx, 1954, pp. 188–190). The objective of the capitalist is to maximise surplus value and appropriate it for their own use.

At first sight, surplus value seems like the same thing as profit and so this might seem to give us a theory of profit. Things, however, are not quite so straightforward. Value, for Marx, bears some relation to price but it is not the same thing as price, and so surplus value is not necessarily the same thing as the profit a capitalist receives as a result of selling the product. Commodities, he says, do not necessarily exchange at their values (e.g. Marx, 1954, p. 104). The consequence is that it's not entirely clear what value *means* in Marx's work. He has a theory of what determines the *amount* of value, but what *is* value? The concept comes from earlier political economists and perhaps also from lay usage, where it refers to the price that a commodity *ought* to exchange at, a price that is considered fair because it reflects the usual cost of production of an item and/or the price that an item usually exchanges at – a price that people reasonably *expect* to pay for a commodity (M. Harvey & Geras, 2013, p. 6; Martins, 2013, p. xiv). Actual prices, then, might be seen as fluctuations around the value of a product (Marx, 1959, p. 178; Mirowski, 1991, p. 154). For some products, in some periods (notably pre-modern periods), prices may have been stable enough that it would have been possible to identify the value of the product in this sense, but in modern times this is rare, and prices may vary for a wide range of reasons. This is equally true of the price of labour power (unless one assumes, as Marx sometimes seems to, that the value of labour power is *determined* by the wage it is paid), and so both a firm's revenues and its costs may vary from the long term expected values of its products and its inputs. Profit, therefore, need not correspond to surplus value. Profit is an actual monetary quantity that reflects firms' costs and revenues, whereas surplus value becomes a notional amount calculated from underlying values.

Marx insists, however, that it is surplus value that drives the capitalist system. He provides two ways to reconcile this claim with the disjuncture between prices and values. The

first is that he expects variations between prices and values to balance out at the macro level: at the level of a whole economy. While some capitalists may make lower profits than the amount of surplus value they have generated, and others higher profits than surplus value, these two effects should be equal and opposite, so that for the economy as a whole, total profits (which for Marx includes rent) are equal to total surplus value (Marx, 1959, p. 214). If this is the case, then whatever the theory predicts for total surplus value should also apply to total profit, and so regardless of the differences between value and price, the theory of surplus value could provide us with a valid theory of the total amount of profit in an economy.

The disjuncture between prices and values is known as the *transformation problem* in Marxist theory, and the second reconciliation comes in the form of Marx's response to the transformation problem in volume 3 of *Capital* (which was not published in his lifetime but rather assembled from his notebooks by Friedrich Engels and published posthumously) (Marx, 1959, Chapter VIII–X). This provides a systematic argument to explain one part of the variation between values and prices. In it, Marx argues that the amount of surplus value generated in an industry or business is not determined or indeed influenced by the amount of capital employed, since it depends entirely on the amount of labour embodied in the product. However, the capital market tends to equilibrate the rate of return to capital across different businesses, or at least across different industries: "aside from unessential, incidental and mutually compensating distinctions, differences in the average rate of profit in the various branches of industry do not exist in reality, and could not exist without abolishing the entire system of capitalist production" (Marx, 1959, p. 153). If capital invested in one industry earned, say, 15% profit per annum, and capital invested in another earned only 5% per annum, capital would tend to migrate to the first industry until the rates evened out, say at 10%. Or at least, this is one possible mechanism that might equilibrate the rate of profit – Marx is not terribly clear what mechanism he has in mind, and Harvey puts it differently: "Individual capitalists are compelled by market forces to compete to maximise their profit. As a result, the rate of profit tends to equalise" (D. Harvey, 2017, p. 33). It is still not clear how this competition would lead to profits equalising, unless Harvey (or Marx) is relying on something like the neoclassical model discussed in Appendix A. Whatever the exact mechanism, the prices of goods in the first industry would have to drop to the level that generated a 10% profit, and those in the latter would have to rise. "One portion of the commodities is sold above its value in the same proportion in which the other is sold below it" so that the rate of profit can be equalised (Marx, 1959, p. 157). The consequence would be

that prices would reflect the amount of capital employed rather than the amount of surplus value produced – he calls these *prices of production* (Marx, 1959, p. 157).

Actual prices may still also deviate from prices of production, for example because of temporary shortages, but this argument at least takes us part way to providing a theory of actual prices and thus of actual profits at the level of the individual firm. Note, however, that in this theory prices are more a product of profits rather than the other way round: it is the market rate of return on capital, multiplied by the amount of capital employed, that plays the key role in determining profits at the lower level. Presumably Marx expresses this as an argument about different industries rather than different firms because this also leaves room for some firms within an industry to be more successful than others, so that some firms may make higher or lower rates of profit than the industry average. Harvey, intriguingly, expresses it as an argument about individual firms: "The total aggregate surplus value is distributed among individual capitalists not according to the surplus value they produce but according to the capital they advance" (D. Harvey, 2017, p. 33).

What's wrong with the labour theory of value

The labour theory of value, however, is utterly untenable, for many reasons, many of which have been debated since shortly after Marx's argument was published in the late nineteenth century. I don't propose to engage with every one of these criticisms or the details of the debates here. The purpose of this section is simply to explain that we cannot rely on the labour theory of value to provide us with an explanation of profit, and so we will need to find other explanations. Let me divide the problems into four groups.

First, we have what we might call technical criticisms of the theory, of which many are discussed in the literature (Elder-Vass, 2016, pp. 64–7, 2022, pp. 24–31). Here, let me pick out just one. Marx recognises that different workers have different skills that make different contributions to production and are valued differently in the market. Marx proposes to allow for this by saying that the labour of more skilled workers creates more value per hour than that of less skilled workers. Let's say, for example, that an hour of a technical worker's labour creates twice as much value as an hour of an unskilled worker's labour. In calculating the value of a product, Marx proposes to convert these different classes of labour time into *abstract* labour time by applying a multiplier to the time actually spent by more skilled workers, so a product that required one hour of the technical worker's time would be seen as containing two hours of abstract labour time. But how is one to decide how much more value

the skilled worker creates in an hour? Marx's answer is to compare their wage rates (Marx, 1954, pp. 191–2, 1959, p. 142). But this means that the value of the end product is now determined in part by the relative *prices* of different types of labour, when the whole point of the theory was to explain the commodity economy by reference to labour values *instead of* prices. As Conway puts it, "Exchange-ratios are thus being used by Marx to *determine* value; whereas Marx's theory is designed to explain exchange-ratios in terms of value" (Conway, 1987, pp. 88–9). As a result, the theory starts to look less like a labour time theory of value and more like a labour *cost* theory of value.

Second, it is worth asking just what sort of argument the labour theory of value is. Superficially, it takes the form of a causal explanation of the role that labour plays in the capitalist commodity economy. This, however, is misleading. As I understand it, drawing on critical realism, there are two elements of causal explanation (Elder-Vass, 2010, pp. 47–8). On the one hand, actual events are caused by multiple interacting causal factors (causal powers, each produced by a causal mechanism) so we can explain events by showing what mix of factors interacts to produce them (known as retrodiction). On the other, we need to explain how each of these causal factors operates so that it tends to produce a certain type of outcome (known as retroduction). But the labour theory does neither of these things.

To be an explanation of the first kind, it would have to explain an actual event or class of events. The most obvious candidate events are the prices at which commodities exchange, but as we have already seen Marx stressed it does not explain actual prices. Perhaps we could see it as an explanation of the 'usual' price of a commodity and agree some procedure for obtaining the usual price from observed prices over a period. But it is perfectly clear, and Marx himself admits, that labour costs (whether assessed in terms of labour time or wages paid) are not the only causal factor that influences the price of commodities, even when we average away shorter-term fluctuations. This is part of the significance of Marx's solution to the transformation problem, which is arguably a retrodictive explanation of usual or average prices, since it explains them in terms of both labour time (or arguably cost, if we take the comment above on board) and the cost of capital. Perhaps Engels published Marx's work on the transformation problem because he thought it solved the problem of the relation between values and prices, and there are still Marxists who believe that it does. But it seems at least as plausible to argue that Marx's solution to the transformation problem renders value theory redundant, for two reasons. First, because the implication is that prices do not tend to converge on values at all, but rather on prices of production, and so any hint that value might be some actual, observable, measurable quantity is finally effaced, and there is little point in

trying to explain it. Second, by providing a theory of usual/average price (as prices of production) that recognises it is influenced by the cost of capital as well as the cost of labour. (One could reject the identification of prices of production with usual/average prices, in which case we are back to the first problem: that even in the case of prices of production there doesn't seem to be any class of events that is being explained and we still don't have a retrodictive explanation).

To be an explanation of the second kind, value theory would have to identify a *mechanism* that contributes to explanations of events. The central claim of Marx's value theory, however, does not identify a mechanism at all. To say that all value is created by labour is not to explain a mechanism (a process of interaction that tends to lead to a certain outcome) but rather to assert a matter of faith. Once again, the lack of any empirical trace of value is fatal to the argument. What the labour theory of value says, when we look closely, is that value of a product both *is* and *is determined by* the amount of socially necessary labour time embodied in it. The argument becomes pointless, and indeed circular, if value has no empirical manifestation. All it tells us is that the amount of labour time in a product is determined by the amount of labour time in it! As Joan Robinson, who adopted some aspects of Marx's work but rejected the labour theory (Alves, 2022, p. 255), puts it "A constant quantity of labour-time, year after year, produces the same *value*. But who cares? What we want to know is how much *stuff* it is producing" (Robinson, 1964, p. 45) – or indeed what that stuff will sell for.

Third, though Marxists generally deny it, the labour theory is primarily an ethical argument about the distribution of income: that workers should be entitled to the full product of the productive process because they and only they create it. This becomes apparent in Marx's concept of exploitation, where he defines the extraction of surplus value as exploitation, meaning that the only way to avoid exploitation is to pay workers the full value of the product. Perhaps it is overstating the case to say that "Every word he wrote is saturated in moral indignation" (Robinson, 1964, pp. 42–3) but a number of writers have made the case that his is an essentially moral theory (including Elder-Vass, 2016, pp. 67–9; Geras, 1985; M. Harvey & Geras, 2013; Lukes, 1985). In practice, the theory is not an explanatory theory or even an empirical theory, but a normative theory. It operates by creating a concept of value that is isolated from all empirical considerations and thus becomes a mystification, a moral claim that is manufactured purely to justify the workers' claim to the product but then misrepresented by suggesting that this kind of value is a real, causally significant, property of a commodity.

Once we recognise that labour value as Marx explains it leaves no empirical trace and has no means of influencing actual events, it can have no relevance to explaining the behaviour of the capitalist economy. Marxists are fond of saying that monetary transactions are merely shadows of the real forces that drive the economy, which operate at the level of value. For example, David Harvey writes "At the end of the day, capitalists care only about the surplus value, which will be realised as monetary profit" (D. Harvey, 2017, p. 10). This is nonsense. At the end of the day, capitalists care about profit, and the concept of surplus value is utterly irrelevant to them. They are not driven to increase surplus value, they are driven to increase profit. They are not rewarded by increasing surplus value, they are rewarded by increasing profit. They do not measure surplus value, indeed most of them know and care nothing about surplus value: they measure profit. To be fair, Marx himself takes a somewhat different tack, arguing that because the rate of profit can vary distinctly from the rate of surplus value, "this serves... to obscure and mystify the actual origins of surplus-value... since the capitalist is in practice solely interested in the rate of profit" (Marx, 1959, p. 167). Nevertheless, he too sees profit as a shadow that conceals the real forces at work: "Disguised as profit, surplus-value actually denies its origin, loses its character, and becomes unrecognisable" (Marx, 1959, p. 167).

It should already be clear that the labour theory of value explains nothing, but we have still not considered the fourth and most serious challenge. If labour value is somehow to influence economic behaviour, it must exist in some form capable of doing so. The whole theory rests on the belief that value is created by workers at the point of production of the commodity concerned, and that this value then goes on to influence subsequent outcomes, whether it has an influence on prices, the surplus value realised by capitalists when they sell the commodities, or any other economic outcome. Perhaps one could have a subjectivist theory in which this worked – capitalists could work out how much labour time went into producing a commodity and then used that calculation to determine the price they charged for it. But this clearly isn't how pricing usually works under capitalism – as a minimum it is influenced by all of a producer's costs, not just labour, and it is influenced by the profit margin the capitalist thinks she can obtain in the market. It would also radically undermine the other premises of labour value theory, since prices would only equal labour value as a result of the deliberate pricing choices of capitalists, and it would be hard to see what stopped them pricing differently.

Instead, advocates of the labour theory, if they address this problem at all, generally address it by arguing that the labour value of a commodity is somehow embedded in the

commodity itself (Elder-Vass, 2016, p. 65). In this view, labour time is taken to be able to influence exchange value because each commodity has "human labour in the abstract... embodied or materialised in it" (Marx, 1954, p. 46). Marx constantly repeats the point that labour isn't just used to produce the commodity but actually "contained in the article" (Marx, 1954, p. 46), another belief he took over from Ricardo (Arthur, 2001, p. 217). Many contemporary Marxists continue to insist that labour is somehow present as substance in the commodities it has produced (perhaps even as an "immaterial substance" (Ehrbar, 2007, p. 237)), thus providing an objective basis, within the commodities themselves, for their exchange value (e.g. Ehrbar, 2007; Engelskirchen, 2007). The difficulty that this idea is designed to solve is that price is clearly determined at the time of exchange and any further consequences such as the realisation of surplus value come later still, but a labour theory of value requires that value be the outcome of the process of production and not the process of exchange. To make this work, the value produced at the time of production must somehow be carried forward in a form that can influence exchange: another idea that remains a staple of mainstream Marxism (e.g. D. Harvey, 2011, p. 101). But the idea that labour is contained in an object it has produced is bizarre. Labour is a process, not a substance, and although it may reconfigure the substance of an object, it does not and cannot introduce any new labour substance into it. Value, conceived of as a residue of labour in a commodity, is purely a figment of the value theorist's imagination.

The law of the tendency of the falling rate of profit

Marx goes on to build a detailed analysis of the capitalist economy on the foundation of the labour theory of value and surplus value. Given that the labour theory of value is so unsatisfactory, one might assume that there was little point in looking at these further theories, but one feature of his argument means that they are at least worth thinking about. This is his claim that at the level of the economy as a whole, the total amount of surplus value is necessarily equal to the total amount of profit. Hence when Marx examines the determinants of surplus value at the macro level, and the effects of changes in it, he *is* also explaining something – the total amount of profit – that has real empirical relevance. His theories of surplus value at the macro level could potentially be reinterpreted as theories of profit at the macro level. Indeed, some Marxists have responded to the inadequacy of the labour theory as a theory of price by arguing that this was not necessarily what Marx was trying to explain, and that the theory of value may have other uses, for example as a theory of

macro-level phenomena (Bellofiore, 2018). Here we will consider two of these macro-level theories. This section discusses the first, the *law of the tendency of the rate of profit to fall* (Marx, 1959, p. 211), which for the sake of simplicity I will mostly just refer to as 'the law'.

Marx outlines the law in Volume 3 of *Capital*, beginning with a series of hypothetical examples in which increasing quantities of *constant capital*, i.e. money invested in productive resources such as machinery, are combined with the same amount of *variable capital*, i.e. money spent on wages, so that increasing quantities of physical capital are combined with the same amount of labour time (Marx, 1959, p. 211). Marx assumes, as per the labour theory of value, that because the quantity of labour employed is the same in each case, the amount of value created will also be the same in each case. Since the value of the labour power employed (as represented by the wage) is also the same, the amount of surplus value created is also the same in each case. The result is that the rate of profit falls as the amount of capital increases since the total amount of profit (which equals the total amount of surplus value) does not increase although the amount of capital employed does. He goes on to argue that "it is a law of capitalist production that its development is attended by a relative decrease of variable in relation to constant capital" Marx, 1959, p. 212). It is a law, in other words, that increasing amounts of physical capital, measured in terms of their value, are employed relative to the amount of labour, a trend that he calls the rising organic composition of capital (Marx, 1954, p. 589). Hence, he argues that because there is a tendency for the organic composition of capital to rise there is also a tendency for the rate of profit to fall (Marx, 1959, p. 212). Incidentally, here he stresses that he is talking about "profit in its pure form as distinct from its different, independent components, such as industrial profit, commercial profit, interest, and ground-rent" and equates this set of components to "surplus-value itself" (Marx, 1959, p. 214). His concept of profit thus includes rent and interest as well as profit, as the terms are understood by neoclassical economists.

Although he repeatedly calls this a *law*, Marx then points out that in practice the average rate of profit doesn't always fall over time, and argues that this means "There must be some counteracting influences at work, which cross and annul the effect of the general law, and which give it merely the characteristic of a tendency, for which reason we have referred to the fall of the general rate of profit as a tendency to fall" (Marx, 1959, p. 232). He then lists some possible countertendencies, for example increasing the length of the working day without paying more wages, so that workers produce more value with the increase appropriated as surplus value, or cutting wages so that the share of surplus value is increased without increasing the total amount of value produced (Marx, 1959, pp. 232–5).

Marx's law is still advocated by a substantial and significant group of Marxist scholars. Michael Roberts's book *The Long Depression* (2016), for example, is a very clear and careful application of the theory to contemporary economic events. As Roberts argues, Marx sees the law as interacting with some of the countertendencies to generate a cyclical pattern of crisis and recovery (Roberts, 2016, p. 17). As the rate of profit falls the least profitable capitalists must go out of business, destroying capital and reducing production and employment, which may also put pressure on wages. Eventually, when a recovery starts, production can be expanded without initially investing in more capacity, so more labour (at a cheaper wage) can be combined with the existing capital stocks, increasing the amount of surplus value created and thus the rate of profits, but once investment re-starts, the rate of profit will once again come under pressure from the rising organic composition of capital (Roberts, 2016, pp. 17–18).

Various attempts have been made to assess whether the empirical evidence on rates of profit (typically in the US) is consistent Marx's theory, with mixed results (Basu & Vasudevan, 2013). One difficulty facing empirical assessments is that evidence that the rate of profit has sometimes fallen or even that it has declined in the long term, does not prove that the mechanism proposed by Marx is responsible for those changes, particularly given that at other times it is clear that profits have increased. More strikingly, capitalism remains profitable 150 years after Marx claimed that the rate of profit had a tendency to fall.

This, of course, is compatible with Marx's positioning of the law as a *tendency* that may be interrupted by countertendencies. This also makes his argument consistent with a more coherent account of causality as the outcome of multiple interacting tendencies, whereas the notion of a *law* suggests that a single causal factor can be determinative on its own and also that the supposed law should generate reliable empirical regularities (Fleetwood, 2012). While this may be admirable in terms of the philosophy of social science, however, any claim that there is a given tendency must be supported with a convincing explanation of the mechanism that produces the tendency, and this is where the argument starts to fall apart.

We may begin by asking why any capitalist would invest increasing amounts of constant capital if it did not increase profits? If the volume of profit to be obtained by employing workers with just their bare hands was the same as the volume to be obtained by combining them with increasingly expensive machinery, and the result was to drive down the rate of profit because the additional capital created no additional value, why buy the machinery at all? It is quite clear that in practice capitalists add physical capital because in the right circumstances it *can* increase the volume of production and sales of the product and thus,

often, profits. Marx's model, however, does not allow him to recognise that this might deliver increased *value* to the capitalist. If we accept the labour theory of value, Marx's argument necessarily holds: since value is nothing more than the labour time embedded in a commodity, if we do not increase the amount of labour time we cannot increase the value. But this merely confirms the irrelevance of his value theory, since capitalists can clearly increase production, profit, and even wages without increasing value in his sense (Alves, 2022, pp. 252–3). To put it differently, his value theory cannot work as a theory of profit.

As Steve Keen has pointed out in a particularly perceptive paper, for Marx's theory to be coherent, he would have to recognise that machinery can be productive in much the same way that labour can be productive – an argument that Marx seems to have deliberately ruled out (Keen, 1993). Marx's account of labour assumes that labour power is a special commodity because it can generate more output than is required to create it (i.e. to pay its wages). Keen's point is that this is also true of productive equipment: a machine may also contribute more to increasing output than it costs to create or buy. Capitalists employ labour because it can produce more than it costs, but they also buy equipment for the same reason. As the American institutionalist economist Thorstein Veblen put it "industrial appliances and materials (tangible assets), as well as the industrial manpower, are productive agencies" (although for Veblen it was the general development of technology, a social asset, that made capital goods productive, rather than their ownership by the capitalist) (Veblen, 1924, p. 67). Production is a causal process in which the output is the result of a complex interaction between multiple factors, including both the productive capacity of labour and the productive capacity of machines – but also many others. Once we accept that, both labour and physical capital goods can make positive contributions to the volume and sales value of productive output and increasing the so-called organic composition of capital need not decrease the rate of profit.

Without the labour theory of value, then, the law of the tendency of the falling rate of profit collapses, since the mechanism that is supposed to produce the tendency has no basis in reality. Investment can increase profits and because profits do not depend only on labour time expended, it is also possible that they can increase the rate of profit. This is true not only at the micro level but also at the macro level, because the increase in profits for one capitalist need not be at the expense of any other. Since, as we have already seen, the labour theory of value is untenable, so is the law of the tendency of the falling rate of profit.

This remains a contentious claim as there are still Marxists who vociferously defend the law, but even amongst Marxists many theorists doubt or indeed dismiss it, often because they

are unpersuaded by the labour theory of value. As Roberts points out, "Marx's law of profitability has been relegated to the background or dismissed by most Marxists" (Roberts, 2016, p. 19). This does not necessarily entail, however, dropping all Marx's work on the economy, and there is a second account of capitalist economic crisis in Marx's work that is less dependent on his theory of value.

Overproduction and crisis

One thing that Marx's different theories of crisis have in common is that profit plays a central role in them. Capitalist firms face a systemic pressure to make profits – what Harvey calls "the coercive laws of competition" (D. Harvey, 2011, p. 43). Failure to do so results in the withdrawal of capital and potentially to the collapse of the firm if it is unable to cover its costs. Marx's second major account of crisis under capitalism argues that declines in profit and thus economic crises can be produced under capitalism by underconsumption or overproduction. Underconsumption is the idea that workers (and indeed capitalists) do not or cannot buy enough consumption goods to enable capitalists to realise the surplus value they have produced – or, to put it in more Keynesian terms, that there is a failure of effective demand (Marx, 1959, p. 484). Overproduction may seem like the other face of underconsumption, but it may also be produced by underinvestment: some of the goods that capitalists produce are bought by other capitalists to use as capital goods, and a shortfall of demand for either consumption or investment goods will mean that capitalists are unable to sell all of their output and thus to realise the surplus value they have produced. The effect would be to reduce profits, to lead capitalists to reduce production and lay off workers or even to go out of business entirely, and thus to produce an economic crisis.

David Harvey expresses the underconsumptionist view in an interpretation of Marx's *Capital* (in a discussion paper questioning the labour theory of value): "the real root of capitalist crises lies in the suppression of wages and the reduction of the mass of the population to the status of penniless paupers. If there is no market there is no value" (D. Harvey, 2018). Marx argues that capitalists, to maximise surplus value, constantly seek to drive down wages, but that this is self-defeating because it stands in the way of the realization of surplus value. This concept of *realization* refers to the need to sell a product before the capitalist can obtain any surplus value from its production, which is a key focus for Harvey. If there are not enough workers who can afford to buy the commodities produced by capitalists then they will be unable to realize surplus value and thus unable to make profits:

"value depends on the existence of wants, needs and desires backed by ability to pay in a population of consumers" (D. Harvey, 2018). The underconsumptionist argument is also controversial as an interpretation of Marx. Roberts, in a reply to Harvey, points out that although Marx endorsed it in one part of *Capital* he roundly rejected in another (Roberts & Harvey, 2018). Harvey in turn argues that "Crises come in many shapes and forms" and that "the collapse of consumer demand" is both an element of Marx's theory of crisis and a factor in real crises (Roberts & Harvey, 2018).

One of the most influential contemporary advocates of a more investment oriented version of the overproduction view is Robert Brenner, whose book *The Boom and the Bubble* presents a persuasive US and manufacturing-centric account of economic history since the Second World War, in which the rate of profit plays a central role (Brenner, 2003). The key to the long post-war boom, he argues, was the capacity of capital to sustain high profit rates while expanding investment, partly because much investment occurred in Europe where productive capacity had been decimated in the war, and later partly because investment moved towards developing countries where there had been little previous manufacturing capital (Brenner, 2003, pp. 9–14). He attributes subsequent declines in the rate of profit and related economic crises to the creation of over-capacity in manufacturing, particularly in the US but later in the other advanced economies as well (Brenner, 2003, pp. 18, 37–8). Boom phases of the economic cycle, on this account, arise partly from the demand generated by producers investing in new capital goods. Producers, however, may assume that the demand generated in the boom phase can be sustained indefinitely and invest in enough equipment to service this demand. But as the boom recedes, they find they have overinvested and recessions arise partly because they are left with unused capital goods that can no longer generate the profits expected when they were installed (Brenner, 2003, p. 250). Although Brenner is known as a member of the analytical Marxist school, it is striking that Marx himself and central Marxist concepts such as value and surplus value are essentially absent from the book. Whatever the reasons, this does suggest that the overproduction argument may not depend on the other elements of Marx's scheme.

Harvey, although he distances himself somewhat from Brenner's version of the argument, also stresses the role of *overaccumulation* in producing crisis (D. Harvey, 2004, p. 64). Overaccumulation, he argues, is "registered as a glut of commodities on the market that cannot be disposed of without a loss, as idle productive capacity, and/or as surpluses of money capital lacking outlets for productive and profitable investment" (D. Harvey, 2004, p. 64). Crises can then be averted or resolved through what he calls spatio-temporal fixes, in

which capital is absorbed either temporally – by making investments with a view to longer-term benefits that cannot be justified in terms of pre-existing demand – or spatially – by exporting capital to other countries (D. Harvey, 2004, p. 64).

Up to this point, Harvey's argument fits clearly within the underconsumption/ overproduction tradition. However, he extends it further by building on another of Marx's concepts, developed further by Rosa Luxemburg, the idea of *primitive accumulation*: "the forcible extraction of value from the non-capitalist sector" (D. Harvey, 2004, p. 73). Harvey rejects the 'primitive' label, which seems to imply that this was merely an early stage in the historical development of capitalism and renames the concept *accumulation by dispossession*. For Marx, this included

> the commodification and privatization of land and the forceful expulsion of peasant populations; conversion of various forms of property rights – common, collective, state, etc. – into exclusive private property rights; suppression of rights to the commons; commodification of labour power and the suppression of alternative, indigenous, forms of production and consumption; colonial, neo-colonial and imperial processes of appropriation of assets, including natural resources; monetization of exchange and taxation, particularly of land; slave trade; and usury, the national debt and ultimately the credit system (D. Harvey, 2004, p. 74),

all of which he sees as continuing to operate. In the contemporary context, they have been joined by

> Stock promotions, ponzi schemes, structured asset destruction through inflation, asset stripping through mergers and acquisitions, the promotion of levels of debt encumbrancy that reduce whole populations, even in the advanced capitalist countries, to debt peonage, to say nothing of corporate fraud, dispossession of assets (the raiding of pension funds and their decimation by stock and corporate collapses) by credit and stock manipulations [… and] the speculative raiding carried out by hedge funds and other major institutions of finance capital (D. Harvey, 2004, pp. 74–5).

What this amounts to, although he doesn't put it this way himself, is an admission by one of the leading contemporary Marxists that the extraction of surplus value from wage labour is at most only one of the means by which profit is created under capitalism.

The underconsumption/overproduction arguments, then, are far less strongly rooted in Marx's core account of the political economy of capitalism in general, and his labour theory of value in particular, then the law of the tendency of the falling rate of profit. In them the concept of profit and the average rate of profit across an economy operate without any need

to be referred back to the concept of surplus value. These theories may be useful regardless of whether profit is derivative from surplus value. This is unsurprising, since underconsumption/ underinvestment theories have also been advanced by both earlier political economists such as Thomas Malthus (Malthus, 1821) and the more recent Keynesian tradition (discussed below). One difference, perhaps, is that the Keynesian argument operates through the impact of aggregate demand on output, employment and profit, and largely ignores profit's possible role as a causal factor in its own right, seeing it instead as a dependent variable, whereas Brenner's argument, in the spirit of Marx, sees the rate of profit as playing a key role as a causal factor as well. It is possible, then, that this type of theory may identify some important mechanisms that have a place in the theory of profit even if we reject the labour theory of value outright. On the other hand, they only address one aspect of profit: the question of what factors might influence the macro rate of profit, and how the macro rate might impact the macro state of an economy. Stripped of their links to the labour theory, they would need to be integrated into an alternative wider theory of profit.

Imperfect competition

The last third or so of this appendix moves on from Marxist theories of profit to other critical approaches, drawn primarily from heterodox economics. Keen estimates that 85% of academic economists remain committed to the neoclassical mainstream but there are also a number of heterodox traditions that offer alternatives to it (Keen, 2011, p. 8). The first of our heterodox approaches to profit brings together contributions from two Cambridge economists, although one was from Cambridge England and the other from Cambridge Massachusetts and both initially saw their work as a modification of the neoclassical tradition rather than a rejection of it. With the increasing power of large corporations, monopolistic practices and anti-trust movements in the late nineteenth and early twentieth centuries, it became increasingly clear that the neoclassical model was inadequate for another reason, in addition to those discussed in Appendix A: it assumed perfect competition, meaning that each of the producers selling in a market was too small to influence the overall supply and price of goods. In 1933, both Joan Robinson of Cambridge England and Edward Chamberlin of Cambridge Massachusetts published books arguing that prices and profits could be explained better using models that recognised the market power of large suppliers: what Robinson called *imperfect competition* and Chamberlin *monopolistic competition* (Chamberlin, 1956;

Robinson, 1969). Their arguments are largely compatible but stress different aspects of the problem.

Robinson's scathing perspective on neoclassical economics is worth quoting at length:

> The economists, misled by the logical priority of perfect competition in their scheme, were somehow trapped into thinking that it must be of equal importance in the real world. When they found in the real world some phenomenon, such as "economies internal to the firm", which is inconsistent with the assumptions of perfect competition, they were inclined to look for some complicated explanation of it, before the simple explanation occurred to them that the real world did not fulfil the assumptions of perfect competition. Or they were tempted to introduce into the theoretical scheme elements which, at a superficial glance, appeared to account for the phenomena of the real world, but which completely destroyed the logical self-consistency of the theoretical scheme (Robinson, 1969, pp. 3–4)

Her last point was amply illustrated in Appendix A, but she provides a further example in her analysis of monopoly. She constructs the argument by taking some of the assumptions of the neoclassical tradition for granted, in particular that firms will always seek to make the greatest possible profit and hence that the markets they operate in can be analysed using marginal curves for supply and demand (Robinson, 1969, p. 6). Unlike the neoclassicals, though, she regards firms as price makers rather than price takers – rather than accepting whatever price is established in the market, they actively set their own prices. This is possible when, and because, firms have an element of monopoly power in a market. Strictly speaking, monopoly means there is only one seller in the market concerned, so that there are no competitors, which means that the firm can set its own prices without others coming in at a lower price and pulling down the market price to a neoclassical equilibrium. Without paying much attention to the reasons why, Robinson points out that many large firms in the leading economies of the day were in a position of at least partial monopoly. She then demonstrates that in such circumstances, a profit maximising producer would

> fix that price at which the excess of gross receipts or revenue over costs will be at a maximum. He [sic] will achieve this if he regulates output in such a way that the addition to his total revenue from selling an additional unit is exactly equal to the addition to his costs caused by producing that unit (Robinson, 1969, p. 51).

She thus employs much of the neoclassical framework but with the result that profit-maximizing monopolists set prices at different levels than the fully competitive equilibrium predicted by the neoclassical tradition. Typically, prices will be higher in the monopolistic

case, and the consequence, as she shows, will be that the monopolist can make higher profits than in the competitive case (Robinson, 1969, pp. 55–6). She goes on to show that this puts another nail in the coffin of the neoclassical argument that markets produce the most efficient and equitable outcomes possible given the resources available to an economy (Robinson, 1969, p. 317).

The strength of Robinson's argument was that it demonstrated that introducing just one element of realism into the neoclassical model destroyed many of the conclusions that were usually drawn from it. The weakness was that her adoption of marginalist equilibrium methods made her work vulnerable to appropriation by the mainstream. Even by the time of the second edition of her work (admittedly over thirty years later), she was able to say that elements of it had been "frozen into orthodox teaching" (Robinson, 1969, p. xi), and it remains there today, often unacknowledged in a later chapter of the typical textbook, as if monopoly can be treated as a minor wrinkle in the fabric of perfect competition.

Chamberlin's book stressed, as its title *The Theory of Monopolistic Competition* implies, that most markets should be seen as *both* competitive and monopolistic to a degree and therefore that a synthesis was required between the theories of competition and monopoly (Chamberlin, 1956, pp. 1–10). As soon as goods and/or sellers become differentiated from one another, some consumers will prefer to buy one version rather than another, and it becomes possible for the seller to move the price independently of the prices charged by their competitors because some of their customers will continue to buy from them even if their price is higher (Chamberlin, 1956, p. 7). Nevertheless, there are always "more or less imperfect substitutes" available from other sellers, which limits the degree of freedom that sellers have in setting prices: as the price is increased some consumers will switch to cheaper produces even though they consider them inferior (Chamberlin, 1956, pp. 9, 65). Hence, we have 'monopolistic competition'. Chamberlin also conducts equilibrium analysis to explain the consequences, although Robinson's version explains the effects on prices and profits more clearly and has therefore been more influential. What he provides that Robinson does not, however (as she acknowledged: Robinson, 1969, p. ix), is a rich account of *how* sellers may establish partial monopolies for their products:

> Differentiation may be based upon certain characteristics of the product itself, such as exclusive patented features; trade-marks; trade names; peculiarities of the package or container, if any; or singularity in quality, design, color, or style. It may also exist with respect to the conditions surrounding the sale. In retail trade, to take only one instance, these conditions include such factors as the convenience of the seller's

> location, the general tone or character of his establishment, his way of doing business, his reputation for fair dealing, courtesy, efficiency, and all the personal links which attach his customers either to himself or to those employed by him (Chamberlin, 1956, p. 56).

On this basis, as he says, "it is evident that virtually all products are differentiated, at least slightly, and that over a wide range of economic activity differentiation is of considerable importance" (Chamberlin, 1956, p. 57). Furthermore, differentiation is not just a pre-existing fact, but an active strategy pursued by sellers, most obviously through advertising and other forms of marketing (Chamberlin, 1956, p. 118). I am one of many later authors who have built on this aspect of Chamberlin's work – in my case framed as the pursuit of *preferential attachment* by aspiring monopolists as part of my explanation of the profits of Apple and other digital economy monopolies (Elder-Vass, 2016, pp. 77–8, 123–9) (see chapter four of *Hyperbolic Profit*). Arguably, these features make Chamberlin's version of the argument more threatening to the neoclassical orthodoxy, first because he provides strong reasons to believe that there are elements of monopoly in almost all markets, rendering competitive equilibrium models of markets thoroughly irrelevant, and second because he starts to break down another cornerstone of the model: the mutual independence of demand and supply. Ironically, however, in subsequent debates Robinson was the more committed critic of neoclassical orthodoxy (Alves, 2022; Robinson, 1964, Chapter 3, 1969, pp. ix–x).

There is a sense in which the imperfect/monopolistic competition argument could be classed with the entrepreneurial theories of profit discussed in Appendix A: they proceed from the assumption that the standard equilibrium model is coherent and modify it along a single dimension in a way that produces the possibility of profit. For both Robinson and Chamberlin, however (though to be fair we could also say the same of Schumpeter), they are not just looking for a way to improve and thus recuperate an unrealistic model. Rather, they are looking at a key factor that does contribute causally to the generation of profit in the real world, although it need not necessarily be the most significant factor in every case of profit. If we discard their equilibrium framework and instead focus on the mechanisms they identify, this is therefore a useful contribution to the theory of profit.

Indeed, it's hard to see how we could make sense of profit in modern capitalism without taking account of monopoly and the multiple forms of power it produces. As well as economic theorists like Robinson and Chamberlin, this has been a theme for historians and other critical thinkers across a variety of traditions. The historian Fernand Braudel, for example, contrasts the competitive market populated by small scale producers making

legitimate profits with "the zone of the anti-market, where the great predators roam and the law of the jungle operates". He characterises this anti-market, the space occupied by large corporations seeking to escape from price competition by establishing monopoly power, as "the real home of capitalism" (Braudel, 1982, p. 230). Modern corporations are equally focused on this opportunity to prevent competitors from interfering with their profits, by turning their markets into Braudel's anti-markets. As the institutionalist economist Thorstein Veblen put it, ownership of large amounts of capital carries with it the power to control production and thus to "sabotage" it: by using capital goods at less than their full capacity to secure greater profits, and by taking every opportunity to restrict the capacity of other producers to enter their markets (Nitzan & Bichler, 2009, p. 223; Veblen, 1924, pp. 65–6).

Keynesianism and profit

John Maynard Keynes is another prominent (English) Cambridge figure who offered an alternative theory of profit. Keynes was arguably the most important economist in the world in the middle decades of the twentieth century given his influence on both macroeconomic policy in most of the Western nations and the post war monetary regime agreed at the Bretton Woods conference. He is best known for his work on the size of national incomes and levels of employment, and we will look at this first since it shares a core concept – the notion of accounting identities at the national level – with the Keynesian theory of profit. I describe this as 'Keynesian' because although Keynes himself made the initial contribution the approach was developed further by others, notably Michael Kalecki and, again, Joan Robinson (Howard, 1983, p. 178; Obrinsky, 1983, pp. 123, 136).

Keynes's most famous work is *The General Theory of Employment, Interest and Money,* originally published in 1936 as a response to the failure of Western governments to resolve the continuing macroeconomic problems of the Great Depression (Keynes, 1973). He explicitly positions it as an alternative to what he calls the 'classical' tradition in economics, by which he meant Marshall's partial equilibrium version of what we now call neoclassical economics, and in particular its account of the labour market (Keynes, 1973, pp. 4–22). He assumes a model of the economy similar to that employed by his colleague Robinson, in which markets do not 'clear' at perfectly competitive equilibrium prices. Instead, firms have spare capacity but don't attempt to take sales from their competitors by dropping their 'administered' prices, not least to avoid provoking their competitors to do the same, which would lower the general level of prices and the possibility of making a profit. Hence there

can be unemployed resources, both capital goods and labour, and Keynes looks at the dynamics of such an economy.

Once we recognise that there can be situations where some economic resources lie unused, we must ask what determines the level of resource usage, and thus output and employment, in an economy. Keynes' answer can be summed up in the concept of 'effective demand': the amount of money buyers are willing to spend on goods (including both consumer goods and producer goods such as machinery and raw materials) (Keynes, 1973, pp. 23–34). He argues that total incomes and total sales are necessary identical because they are two sides of the same transactions – what is known in macroeconomics as an *accounting identity*. If effective demand is higher, sales and thus also output, employment and incomes will be higher. He then constructs a theory of what determines effective demand, which he divides into the demand for consumption goods and the demand for investment goods. He argues that consumer spending depends on the level of wage income, but not all wage income is spent since a proportion of it is saved, so there must be enough investment spending to fill the gap between consumer spending and wages. When investment rises, the savings gap must also increase, and if consumers save a fixed proportion of their income, as Keynes suggested, this means that their overall income would also have to increase until their savings balance the higher level of investment. The mechanism is that greater investment generates more demand to produce investment goods, which in turn generates more employment and wage income for workers in the corresponding industries. Those increased incomes lead to increased demand for consumption goods too, generating further increases in output and employment until the increased savings by workers match the increase in investment. He therefore attributed the continuation of the depression of the 1930s to low levels of investment, which in turn were a consequence of low producer expectations of future sales. He argued that governments should break the deadlock by injecting another source of demand into the economy in the form of increased government spending, which could perform the same function as investment in driving up effective demand.

So far, profits have not entered the picture, but Keynesian theories of profit are close parallels to this theory of output and employment. They rest on a different variation of the macro accounting identity between income and expenditure. As well as seeing incomes as divided between consumption and saving, we can also see them as divided between different types of income, and in Keynes's earlier work *A Treatise on Money* (Keynes, 1930) he introduced a variation of this argument. If we assume that incomes are divided between wages and profit; that all wages are spent on consumption goods (an argument he modified

later); and that profits are partly spent on consumption goods and partly on investment; then it becomes possible to argue that the more capitalists spend (whether on investment or consumption) the higher profits will be. Keynes compared this with an old folk story about a pot filled with money that magically refilled itself whenever money was taken out: if capitalists spent more, then they would (collectively) earn more as a consequence (Keynes, 1930, p. 139; Obrinsky, 1983, p. 118). Both Kalecki and Robinson came to similar conclusions to Keynes: that "capitalists earn what they spend" (Obrinsky, 1983, pp. 136, 141). Kalecki justifies the argument that it is the spending that is determinative of the profits (rather than the other way round) on the grounds that capitalists can directly control what they spend but they cannot directly control how much profit they earn (Howard, 1983, p. 161). More subtlety can be added to the argument by adding in other macroeconomic variables: van Treeck, for example, argues that "macroeconomic profits are by definition equal to the sum of investment spending, consumption expenditure out of profits, the government deficit and the external surplus, less saving out of wage income" and thus that if investment falls then profits can only be sustained by increasing one or more of these other sources of demand (Treeck, 2009, p. 909).

The idea that accounting identities can be used to generate causal claims like these, however, is highly problematic. Ultimately, accounting identities are not and cannot be causal relationships. They are relations between two sets of numbers that necessarily sum to the same quantity because they are merely different descriptions of the same thing. To say that one side determines the other is essentially to say that the total sum of transactions determines itself. Causal conclusions simply cannot follow from such an argument. While accounting identities do have some value in exposing fallacious macro-economic arguments (Glasner, 2015), the causal conclusions above cannot be derived from them. In effect, the accounting identities provide rhetorical cover for the assumptions that are doing the real work in these explanations, in particular assumptions about mechanisms and directions of causality. In the Keynesian theories of profit, the assumption that profit is determined by capitalist expenditures because capitalists can control their investment expenditures but not their profits is particularly crude. Keynes himself mentions, but then immediately dismisses, one objection: his colleague Ralph Hawtrey had pointed out that if investment is defined to include changes in stocks of finished products (which it is!) then investment is not entirely under the control of producers (Keynes, 1973, p. 76). They might accumulate stocks of finished products simply because less was sold than they had expected. This involuntary investment might then lead to changes in production in the next period. But if Keynes

accepted this point, it would undermine the direction of the causal influence he saw at work: investment might fall because demand had fallen, whereas he wants to argue that it is investment that is driving the level of demand.

None of this invalidates Keynes's arguments about the importance of effective demand, which would still be coherent if the accounting identities construct was discarded, since he backs the argument up with discussions of actual causal processes. Still, this would then require consideration of what *other* causal factors might also affect macro levels of output and employment. It is also plausible to suggest that effective demand has an influence on the general level of profit in the economy, and at this point his argument converges with other overproduction/underconsumption arguments like Brenner's. However, the Keynesian tradition's claims about profit being *determined* by capitalist expenditures does not have a plausible causal underpinning once the shaky support of accounting identity theory has been swept away.

Profit as social rent

Alongside heterodox economics, the last half century has seen a revival of interest in the economy from sociologists. Economic sociologists have also tended to be critical of mainstream economics, but from a somewhat different perspective than heterodox economists. They have avoided constructing alternative models of the economy and instead taken a more discursive approach that focuses on the ways in which the real economy depends upon social structures. Mark Granovetter, for example, in two of the most cited papers in sociology, showed that the economy is deeply embedded in social networks, and that the workings of the market depend on a level of trust between transactors that itself depends on the existence of networks and normative commitments (Granovetter, 1973, 1985). Participants in the market are thus not the isolated calculating individuals assumed by mainstream economics, but rather must take account of the interests and commitments of those around them. Nevertheless, economic sociologists have tended to restrict their attention to sociological aspects of economic questions. They have usually stopped short of stepping on the toes of economists by offering alternative explanations of core questions in economics itself. The question of profit has been particularly neglected (Knöbl, 2017). Indeed, one strand of the tradition has argued explicitly against challenging mainstream economics (Callon, 1998; Miller, 2002).

Despite this, the structures and mechanisms identified by economic sociology do make causal contributions to economic events, and part of my argument in this and my earlier books is that the economy is inherently social, so that social forces must be taken account of in providing causal explanations of economic phenomena. Hence, I welcome a recent paper by Sascha Muennich that seeks to explain profit – or at least the distribution of profit between different firms in any given industry – using a range of work from the tradition of economic sociology (Muennich, 2019).

Muennich's argument depends on the concept of *rent*. In common usage, and traditionally in economics, *rent* refers to the income received by landlords in exchange for the use of land or buildings, but in the critical tradition, it has a wider sense. Keynes, for example, was critical of the role of *rentiers* in the economy: people who live off the proceeds of their investments (Keynes, 1973, pp. 221, 376). Rent, in the more recent critical tradition, refers to any income obtained from ownership or control of a resource, whether physical or financial. It often carries overtones of ethical disapproval, related to the labourist distributional ethic implicit in the Marxist and other radical traditions – the idea that only income obtained from the supply of labour is *deserved.* In principle, though, the concept can be stripped of these overtones and used in a purely descriptive fashion to refer to any income obtained from ownership or control of a resource.

Muennich is focused on what he calls *social rent*:

> Social rents are relational phenomena, they depend on the broader structure of interaction patterns, group boundaries, and identities… [N]etworks, as well as formal or informal rules in markets, can endow certain actors or groups with material or symbolically legitimate capacities to appropriate higher amounts of value than others (Muennich, 2019, p. 170)

Drawing on earlier economic sociology, Muennich argues that social networks and/or structures are established that enable markets to operate, but these structures also provide opportunities for individual firms to establish themselves in privileged positions, which they can then exploit to earn social rent. Muennich does not claim that all profit can be ascribed to social rent, but rather that this is one important factor influencing which firms are able to make more profit. Broadly speaking, he suggests, firms can strengthen their market position through two kinds of social resources: "1) *privileged knowledge* about how other actors will think, act, and organize in the future and (2) *increased control* over others' action orientation. Networks and tacit rules in markets provide certain actors with these rent positions"

(Muennich, 2019, p. 170). He goes on to identify six varieties of such rents, each deriving from an earlier contribution to economic sociology.

For example, Harrison White has argued "that firms react to the uncertainty of competition by trying to self-organize a differentiated market structure" (Muennich, 2019, p. 171), including what he calls "quality niches". In other words, firms try to create a sense that their products are different from, and in some way better than, those of their competitors, to reduce the risk of losing business as prices vary. This argument is like some of Chamberlin's work on monopolistic competition, but White is more focused on the processes through which firms consider their relationships to *each other* in their market strategies than on their relations to their customers. Muennich reframes White's argument into the social rent framework by suggesting that those firms that succeed in positioning themselves in quality niches are then able to exploit their control over this position in the market to make higher profits than firms without such niches.

In a second example, Muennich draws on the work of Neil Fligstein, who "emphasized the material and symbolic struggle about different sets of formal and informal rules in economic fields" (Muennich, 2019, p. 173). Firms, in this argument, can exploit positions of recognition within their industry to influence rules in their markets in their favour and against their competitors and increase their profits as a result (Muennich, 2019, pp. 173–4).

Muennich's paper takes classic arguments from economic sociology and gives at least some of them a new twist to show that they can be deployed as part of the explanation of profit. He thus demonstrates that these sociological explanations add something new to our understanding of substantively economic questions, beyond what we find in economics itself. A particular strength, as against most of the theories we have considered in these two appendices, is that he recognises considerable variety in the ways in which profits are produced in different circumstances and thus that we cannot have just one explanation that fits all cases of profit. Not only does he recognise that there are many different sources of social rent, but he also portrays social rent as only one of the factors that determine profit levels.

Similar versions of the concept of rent as the exploitation of control of a limited resource have become influential in critical accounts of profit in recent years, and connect up with arguments about monopoly (Christophers, 2020; Sayer, 2015, Chapters 4–6; Standing, 2021). I return to these in chapter four of the book.

Conclusion

In some ways, the critical theories of profit discussed in this appendix have similar problems to the mainstream tradition. Both the Marxist labour theory of value and the Keynesian use of accounting identities to develop macro level explanations are unworkable as the basis for causal theories of economic phenomena in the commodity system. The Marxist model assumes that profit is just a derivative of surplus value, a concept that despite its longevity has no explanatory power whatsoever, nor even any empirical manifestation, except when it is smuggled in as an equivalent to total profits. Accounting identities do not and cannot play a causal role. As a result, theories of profit that depend on either of these frameworks are also untenable, including the law of the tendency of the falling rate of profit and the Keynesian theory of the determination of profit by capitalist spending.

These approaches also share the mainstream's orientation to single factor models of profit. Writers often seem to be reaching for a theory that provides a single answer to the question of where profit comes from, a single factor that (a) is the source or origin of profit in some sort of metaphysical sense; (b) provides a legitimation (or delegitimation) of all profit; (c) explains the size of profits, preferably at both the micro and macro levels; and (d) fits neatly into a larger explanatory system that explains the operation of the whole economy including the distribution of income. But the social world is far more complex than this. Many factors, and indeed different mixes of factors in different cases or types of cases, interact to produce profits, and an adequate theory must provide a framework that allows us to see how those many factors interact with each other. That list of factors must also include sociological factors that are widely ignored by economic theorists, relating to the influence of social structures, normativity, social networks and sources of social power in general. Part of the objective of this book is to construct a framework that is specific enough to make sense of the larger forces involved in the production of profit while allowing space in the framework for the interaction of these many and varied causal forces.

Still, despite the weakness of the frameworks employed by critical theories of profit, many of the scholars within these traditions have identified real mechanisms that do seem to contribute something to the causation of profit. Explanations of these mechanisms could usefully be redeployed into a more productive framework. For example, levels of investment and of effective demand more generally do have a real influence on the state of the economy and thus on macro levels of profit. Similarly, monopoly does provide at least part of the explanation of many cases of profit.

These latter theories have much in common with views of profit as a form of rent, in the critical sense of the term: as derived from the control of resources. One could even argue that both the mainstream and critical traditions converge on the belief that profit is accumulated by capital through its control of productive resources and that the main difference between them is how they evaluate this situation in ethical terms. We don't need to endorse the neoclassical view that capital deserves its rewards because it is productive to recognise that businesses often do make use of capital to develop productive capacity and that this can sometimes be of wider social benefit. But at the same time the control of resources can be used for what Veblen calls sabotage (which resonates with several varieties of Muennich's social rent) – they can be used to exclude competitors to keep prices high, often by restricting production and thus restricting the social benefit these resources can produce.

In rejecting the explanatory frameworks discussed in these appendices, part of what I am rejecting is the simplistic ethical evaluations of capital and its activities that are carried within at least the Marxist and mainstream models. Profit is neither a universally just reward for contributing resources to production nor a universally evil product of exploiting labour. Profit in itself is ethically neutral: what matters from an ethical perspective is the activities through which it is accumulated and their effects on the world. We need a new framework for explaining profit, but not one that prejudges the ethical issues. This does not represent an abdication of ethical responsibility but rather a recognition of the need to conduct ethical evaluations in the light of the cases concerned rather than assuming they can be derived in every case from a pseudo-explanatory economic theory.

References

Alves, C. (2022). Joan Robinson on Karl Marx: 'His Sense of Reality Is Far Stronger'. *Journal of Economic Perspectives*, *36*(2), 247–264.

Arthur, C. J. (2001). The spectral ontology of value. In A. Brown, S. Fleetwood, & J. Roberts (Eds), *Critical Realism and Marxism* (pp. 215–233). Routledge.

Basu, D., & Vasudevan, R. (2013). Technology, distribution and the rate of profit in the US economy: understanding the current crisis. *Cambridge Journal of Economics*, *37*(1), 57–89.

Bellofiore, R. (2018). The Multiple Meanings of Marx's Value Theory. *Monthly Review*, *69*(11).

Braudel, F. (1982). *The wheels of commerce*. Collins.

Brenner, R. (2003). *The Boom and the Bubble: The US In The World Economy*. Verso.

Callon, M. (1998). Introduction: the embeddedness of eocnomic markets in economics. In M. Callon (Ed.), *The laws of the markets* (pp. 1–57). Blackwell/The Sociological Review.

Chamberlin, E. (1956). *The theory of monopolistic competition* (7th edn). Harvard University Press.

Christophers, B. (2020). *Rentier Capitalism: Who Owns the Economy, and Who Pays for It?* Verso.

Conway, D. (1987). *A Farewell to Marx: An Outline and Appraisal of His Theories*. Penguin.

Ehrbar, H. (2007). The relation between Marxism and critical realism. In J. Frauley & F. Pearce (Eds), *Critical realism and the social sciences: heterodox elaborations* (pp. 224–239). University of Toronto Press.

Elder-Vass, D. (2010). *The Causal Power of Social Structures*. Cambridge University Press.

Elder-Vass, D. (2016). *Profit and Gift in the Digital Economy*. Cambridge University Press.

Elder-Vass, D. (2022). *Inventing Value: The Social Construction of Monetary Worth*. Cambridge University Press.

Engelskirchen, H. (2007). Why is this labour value? In J. Frauley & F. Pearce (Eds), *Critical realism and the social sciences: heterodox elaborations* (pp. 202–223). University of Toronto Press.

Fleetwood, S. (2012). Laws and tendencies in Marxist political economy. *Capital and Class*, *36*(2), 235–262.

Geras, N. (1985). The Controversy About Marx and Justice. *New Left Review*, (150), 47–85.

Glasner, D. (2015, October 21). Keynes and Accounting Identities.

Granovetter, M. (1973). The strength of weak ties. *American Journal of Sociology*, *78*, 1360–80.

Granovetter, M. (1985). Economic action and social structure: The problem of embeddedness. *American Journal of Sociology*, *91*, 481–510.

Harvey, D. (2004). The 'New' Imperialism: Accumulation by Dispossession. *Socialist Register*, *40*, 63–87.

Harvey, D. (2011). *The Enigma of Capital: And the Crises of Capitalism*. Profile Books.

Harvey, D. (2017). *Marx, Capital and the Madness of Economic Reason*. Profile Books.

Harvey, D. (2018, March 14). Marx's Refusal of the Labour Theory of Value. *Reading Marx's Capital with David Harvey*. Retrieved from http://davidharvey.org/2018/03/marxs-refusal-of-the-labour-theory-of-value-by-david-harvey/

Harvey, M., & Geras, N. (2013). *Marx's Economy and Beyond*. CRESI, University of Essex.

Howard, M. (1983). *Profits in Economic Theory*. Macmillan Education UK.

Keen, S. (1993). Use-Value, Exchange Value, and the Demise of Marx's Labor Theory of Value. *Journal of the History of Economic Thought*, *15*(1), 107–121.

Keen, S. (2011). *Debunking economics* (Revised and expanded.). Zed Books.

Keynes, J. M. (1930). *A treatise on money*. Macmillan.

Keynes, J. M. (1973). *The General Theory of Employment, Interest and Money*. Macmillan.

Knöbl, W. (2017). Zwei Leerstellen der neueren Kapitalismustheorie. Über Mehrwert und Profit. *Mittelweg 36*, (6), 55–74.

Lukes, S. (1985). *Marxism and Morality*. Oxford UP.

Malthus, T. R. (1821). *Principles of political economy considered with a view to their practical application*. Wells and Lilly.

Martins, N. O. (2013). *The Cambridge Revival of Political Economy*. Routledge.

Marx, K. (1954). *Capital, Volume 1*. Lawrence & Wishart.

Marx, K. (1959). *Capital, Volume 3*. Lawrence & Wishart.

McLellan, D. (1980). *The Thought of Karl Marx*. Macmillan.

Miller, D. (2002). Turning Callon the right way up. *Economy and Society*, *31*(2`), 218–233.

Mirowski, P. (1991). *More Heat than Light*. Cambridge University Press.

Muennich, S. (2019). Profit as Social Rent: Embeddedness and Stratification in Markets. *Sociological Theory*, *37*(2), 162–183.

Nitzan, J., & Bichler, S. (2009). *Capital as Power: A Study of Order and Creorder*. Routledge.

Obrinsky, M. (1983). *Profit Theory and Capitalism*. University of Pennsylvania Press.

Roberts, M. (2016). *The Long Depression: Marxism and the Global Crisis of Capitalism* (Illustrated edition.). Haymarket Books.

Roberts, M., & Harvey, D. (2018, April 2). Marx's law of value: a debate between David Harvey and Michael Roberts.

Robinson, J. (1964). *Economic Philosophy*. Penguin.

Robinson, J. (1969). *The economics of imperfect competition* (2nd ed.). Macmillan.

Sayer, A. (2015). *Why We Can't Afford the Rich*. Policy Press.

Standing, G. (2021). *The Corruption of Capitalism: Why rentiers thrive and work does not pay*. Biteback Publishing.

Treeck, T. van. (2009). The political economy debate on 'financialization' – a macroeconomic perspective. *Review of International Political Economy*, *16*(5), 907–944.

Veblen, T. (1924). *Absentee Ownership: Business Enterprise in Recent Times - The Case of America*. George Allen & Unwin.