

MARX, KEYNES, LEVY, KALECKI, STEINDL, MINSKY ON PROFIT

Jan Toporowski

School of Oriental & African Studies, University of London

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1. Introduction

Instability of capitalism is central problem of 20th & 21st century capitalism, replacing immiseration of working class as key problem of 19th century capitalism.

Instability is associated with fluctuations in profits.

Theory of how profits are realised: common in work of Marx, Keynes, Levy, Kalecki, Minsky.

Vs. Neo-classical, New Classical, New Keynesian etc. view that capital can by itself generate its own return (because ownership of capital gives legal right to the return on capital).

2. Assumptions

MICROFOUNDATIONS!!!

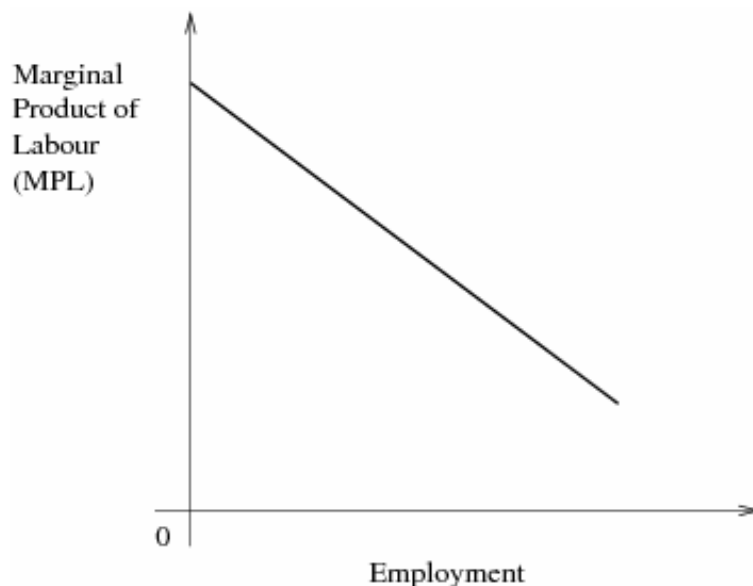
Vertically-integrated 'representative' firm,

i.e., only input is labour.

Rising marginal cost of labour,

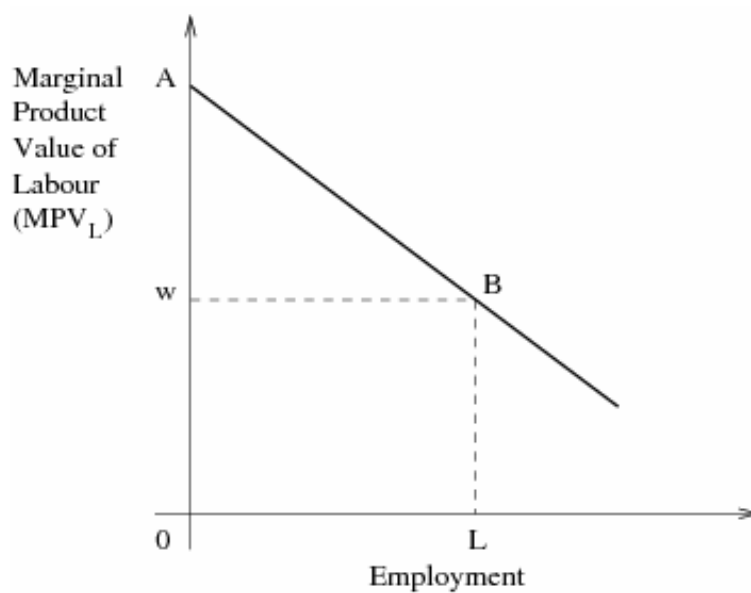
i.e., decreasing marginal product of labour:

Figure 1



$\text{MPL} \times \text{Price of Output} = \text{Marginal product value of labour}$
(i.e., money value of marginal product):

Figure 2



3. The demand for labour

Total Output (of representative firm) = ABLO,

made up of:

Total wage bill = total wage income = wL

Plus

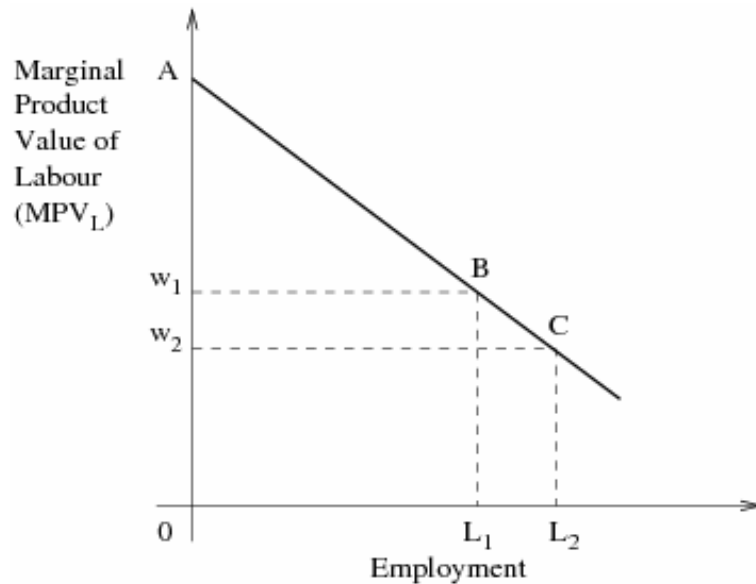
Total profit = AwB

Profit-maximising level of employment is at L .

The Neo-classical theory of employment:

A cut in wages from w_1 to w_2 raises employment from L_1 to L_2

Figure 3



Profits rise from Aw_1B to Aw_2C .

Therefore capitalists engage in distributional struggles to reduce wages: The 'workers' friends' seek to persuade workers that ***lower wages are in the workers' best interests.***

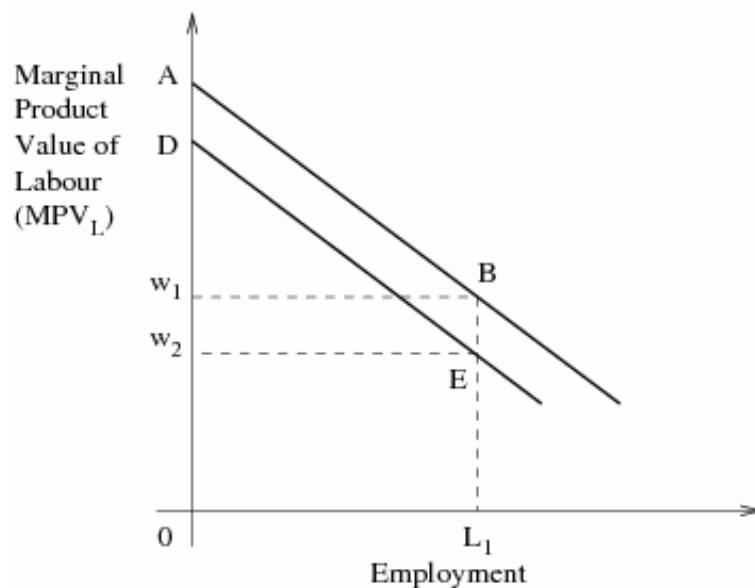
Marx, Keynes, Kalecki, Steindl, Minsky theory of employment:

Cut in wages from w_1 to w_2 reduces wage income from $w_1.L_1$

To $w_2.L_2$

In perfectly competitive markets, prices fall in face of reduced demand. MPV_L is reduced by $A - D$ (i.e., $w_1 - w_2$)

Figure 4



In imperfect competition, prices do not fall: reduced demand causes reduced output and employment.

First key implication for employment

Changes in employment are not made in the labour market alone, by changes in wages, but depend also on prices.

4. Profit

Although wage bill is reduced, profit stays the same, i.e.,

$$Aw_1B = Dw_2E$$

Vs. Ricardian Marxist (Sraffian) view: profits rise when wages fall.

Why do profits stay the same?

5. Realisation of Profits

Where do employers obtain money to pay workers?

From the wages that they pay their workers, which workers return to them when they buy goods from capitalists.

Where do capitalists obtain their profits, since surplus output (Aw_1B) is not sold to workers?

Who buys surplus output?

According to Marx, Keynes, Kalecki, Jerome Levy, and Minsky, capitalists buy surplus output from each other when they buy investment goods, or consume.

So Aw_1B is 'realised' when capitalists invest or consume.

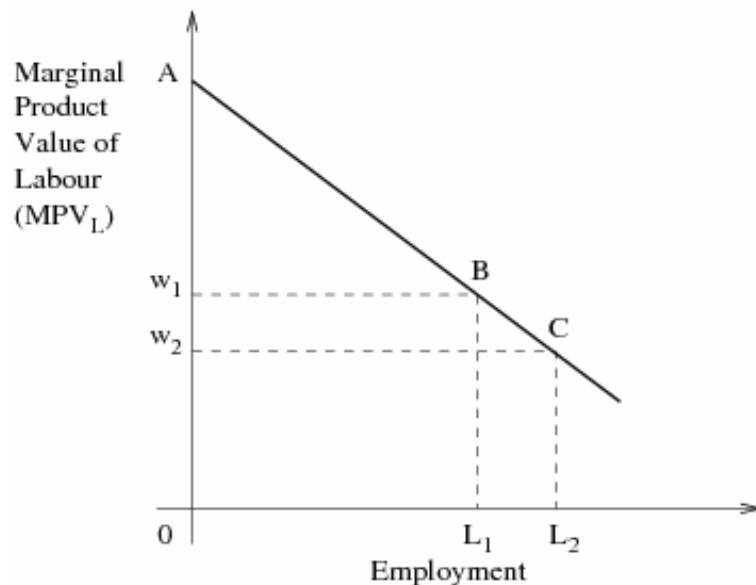
6. Economic dynamics and critique of Keynes

Second key implication for employment:

Employment and output cannot increase without an increase in profit due to **increased investment or capitalists' consumption**

e.g., in Figure 3, from Aw_1B to Aw_2C where total output increases from AOL_1B to AOL_2C

Figure 3



Minsky: 'In Keynes's analysis, investment determines output and employment ...' ('and finance determines investment').

Likewise in Marx/Luxemburg/Sweezy (capital accumulation) and Kalecki.

Flaw in the political economy of Keynes (and Post-Keynesians?) that investment could be stabilised at a sufficient level to maintain full employment.

Problem of excess capacity and falling rate of profit on capital – stable investment may keep profit constant, but capital stock rises as investment adds to capital stock.

7. Firm and household saving

From National Income identity:

$$S = S_h + S_f = I + (G - T) + (X - M)$$

Where:

S – saving; S_h - Household saving; S_f – firms saving (retained profits or profits after payment of taxes, interest and dividends);

I – Investment, or Gross Domestic Capital Formation

$(G - T)$ – Fiscal deficit; $(X - M)$ – Foreign trade surplus.

Assume fiscal deficit = trade deficit (Godley)

$$S_h + S_f = I, \text{ or } S_f = I - S_h$$

i.e., Firms' net financial surplus, after payment of interest and dividends = investment expenditure, **minus** household saving (Marx's dual character of saving).

8. 'Forced indebtedness' and financial fragility

Kalecki: majority of S_h is **rentiers'** saving → problem of **inelasticity of household saving**

i.e., investment and output may fall, but S_h stays stable.

So, if $S_h > I$, $S_f < 0$

Financial deficit induces firms to cut I further. Financial deficit increases → sustained fall in output & employment.

Steindl: majority of S_h is *middle class saving*. Also inelastic.

Firms respond to financial deficit by borrowing → excess debt (Ponzi financing).

9. Conclusion

- Financial Instability Hypothesis is a theory of *the financial crisis of industry* and **NOT a financial crisis of banks!!!**

- 'It' for Minsky was always the Great Depression, and **NOT** 1929 (or the 2007-'9 Crisis).