

MANUFACTURING AND GLOBAL TURBULENCE

BRENNER'S MISINTERPRETATION OF PROFIT RATE DIFFERENTIALS

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Version: May 10, 2005.

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RÉSUMÉ

SECTEUR MANUFACTURIER ET TURBULENCE MONDIALE L'ERREUR D'INTERPRÉTATION DES ÉCARTS DE RENTABILITÉ PAR ROBERT BRENNER

L'analyse de la crise structurelle de la fin du xx^e siècle par Robert Brenner, dans son *Economics of Global Turbulence*, repose sur la constatation de la baisse du taux de profit, comme c'est couramment le cas chez les économistes marxistes. Au lieu de la référence usuelle aux caractéristiques du changement technique, Brenner explique la baisse du taux de profit dans toute l'économie par sa baisse dans les industries manufacturières, résultant elle-même d'une concurrence mondiale excessive. Son intuition fondamentale provient de l'observation qu'aux États-Unis, après la Seconde Guerre mondiale, le taux de profit des industries manufacturières était plus élevé que dans les autres branches de l'économie américaine, et qu'il y déclinait bien davantage. Cette interprétation résulte d'une mauvaise lecture des écarts de rentabilité entre branches. En fait, le taux de profit des industries manufacturières ne fut pas sensiblement différent de celui de la plupart des autres branches, à l'exception d'un groupe de branches très capitalistiques, comme les chemins de fer, qui ne sont responsables que de 13% de la production totale. Cette différence, qui demeure à expliquer n'a rien à voir avec la concurrence internationale.

ABSTRACT

MANUFACTURING AND GLOBAL TURBULENCE BRENNER'S MISINTERPRETATION OF PROFIT RATE DIFFERENTIALS

Robert Brenner's analysis of the structural crisis of the late 20th century, in his *Economics of Global Turbulence*, is based on the observation of the decline of the profit, as is common among Marxist economists. Instead of the usual reference to the features of technical change, Brenner explains the decline of the profit rate in the whole economy by its fall within manufacturing industries, resulting from excess international competition. Brenner's basic insight is based on the observation that, after World War II, in the US, the profit rate of manufacturing industries was larger than in other US industries and declined considerably more. This observation follows from a misinterpretation of profit rate differentials. Actually, the profit rate of manufacturing industries was not significantly different from that of most other industries, with the exception of a group of very capital intensive industries, such as railroads, which accounts for only 13% of total output. This difference, which remains to be explained, has nothing to do with international competition.

MOTS CLEFS : Taux de profit, technique, baisse du taux de profit, concurrence.

KEYWORDS : Profit rate, technology, falling profit rate, competition.

J.E.L. Nomenclature: B14,L70.

The publication of Robert Brenner's *Economic of Global Turbulence*¹ has aroused a flurry of reactions. The reason is easy to understand. Brenner's study has been the object of a special issue of the *New Left Review*, including a raving introduction, depicting the study as an outstanding unrivaled piece, a "clear-cut analytical model" which will refute the "logical fallacies" of the left!

What does the left economist find in the *Economic of Global Turbulence*? First, familiar themes: the centrality of the fall of the profit rate in the structural crisis of the 1970s and the new course of the US economy in the following decades, the actual performances of the US economy concerning growth and technical change, the new role of financial interests, the stagnation of wages (related to the decline of the profit rate), etc. Nothing new so far, nonetheless because Brenner's study is widely publicized around the world, it will certainly contribute to the visibility of these left themes.

Brenner's original contribution to this analysis can be summarized in a few words: *the decline of the profit rate was caused by the competition exerted by Japanese and German manufacturing industries on US Manufacturing.*² The economics of Brenner's demonstration have already been discussed and criticized in several contributions to the debate, including our own work.³ Indeed, there are serious problems with Brenner's analysis of competitive mechanisms and the underlying theory of distribution appears highly questionable. But one crucial empirical flaw has not yet been discussed. The purpose of the present short note is to point out a *basic misinterpretation* which burdens Brenner's original insight concerning profitability in manufacturing industries.

Brenner's argument is based on the observation of the comparative profit rates within manufacturing and nonmanufacturing industries, and their trends (Brenner's figure 8). Our figure 1 reproduces this comparison using our own computation, revealing a pattern *similar* to that depicted by Brenner. We use a definition of the profit rate that we judge to be more appropriate for such a comparison, but the difference in terms of computation is secondary. The true issue is one of *interpretation*:

1. Brenner's insight concerning the particular role of manufacturing industries (where international competition raged) starts from these profiles. Since World War II, the profit rate in the nonmanufacturing industries both has been lower than within Manufacturing, and has *declined less*. Thus, the central issue becomes the explanation of a specific trait of manufacturing industries. From this observation Brenner's focus on international competition follows: the competitive warfare between Japanese, German, and US manufacturing industries which caused the fall of the profit rate.
2. Can a standard classical-Marxist economist provide an explanation for the same observation? At first blush, it is truly puzzling. The large gap between manufacturing and nonmanufacturing profit rates after World War II contradicts a central component of the classical-Marxian theory of competition: the gravitation of the profit rates of the various industries around a common value. How can it be that Manufacturing was so much more

1. R. Brenner, "The Economics of Global Turbulence", *New Left Review*, 229 (1998), p. 1-264.

2. Brenner contends that this decline of the profit in one industry caused in turn the decline of the profit rate in the whole economy, basically via the favorable effect on real wages of the "diminished" prices of manufacturing goods.

3. G. Duménil, M. Glick, D. Lévy, "Brenner on Competition", *Capital and Class*, 74 (2001), p. 61-76; G. Duménil, D. Lévy, "Brenner on Distribution", *Historical Materialism*, 4 (1999), p. 73-94.

profitable than the rest of the economy? Is monopoly an explanation? Further empirical investigation is obviously required before elaborating on this observation.⁴

The solution to this puzzle is provided in figure 2. We decompose the total nonresidential⁵ private economy into three sectors instead of two: (1) Manufacturing, (2) Mining, Transportation and public utilities, and (3) the rest of the economy. In the average since World War II (1948-1997), Manufacturing accounted for 29.9% of the net product of this economy; Mining, Transportation and public utilities, for 12.8%; and other industries, for 57.3%. Figure 2 is telling: The entire difference between Manufacturing and Nonmanufacturing is concentrated within a fraction of the economy accounting for about one eighth of output: Mining, Transportation and public utilities. The profit rate of the sector producing the remaining 57.3% of output is very close to that of Manufacturing, with the same trend, same decline, and same limited recovery. (As is well known, Manufacturing fluctuates more, since it is more severely affected by the business cycle.)

Using this three sector division, the nature of the problem changes radically. We need now to explain why the profit rate in Mining, Transportation and public utilities is so low and failed to decline as much as in the rest of the economy. The issue *has nothing to do with the specific characters of Manufacturing*. Actually, these industries, with very low profit rates, have a common feature: they are highly capital intensive (their capital-labor ratio is very large). They produce 12.8% of the output of the nonresidential private economy, but use 42.1% of the fixed capital! Such capital intensity may be a feature of the data itself; estimating the capital stock in, for example, Railroads is nearly an impossible task⁶. Basic competitive mechanisms (the mobility of capital) do not recognize these investments for what they have been in the past, because fixed capital cannot be moved.

The nature of Brenner's mistake is very easy to understand. Consider a group of four people, Tom, Bill, Mark, and John. They are exactly of the average height, except that John is very short. Brenner's view of the situation is this: *Tom is taller than the rest of the group*. In a sense, this is true. Comparing the size of Tom with the average size of Bill, Mark, and John, one finds a larger figure for Tom. The results displayed in figure 1 are therefore correct. But the meaningful interpretation is: *John is short*. This is what figure 2 shows.

The specific profile of the profit rate in Manufacturing does not explain the crisis, because Manufacturing is not unusual.

4. In 1993, we had already shown that the profit rate of Retail and Wholesale Trades were not significantly different from the two components of Manufacturing, Durable and Nondurable goods (G. Duménil, D. Lévy, *The Economics of the Profit Rate: Competition, Crises, and Historical Tendencies in Capitalism*, Aldershot: Edward Elgar (1993), ch. 3). For a more detailed analysis of profit rates by industries, see G. Duménil, D. Lévy, "The Field of Capital Mobility and the Gravitation of Profit Rates (USA 1948-2000)", *Review of Radical Political Economy*, 34 (2002), p. 417-436.

5. Residential capital is primarily owned by households, more for personal use than as an investment.

6. The recent revision of the capital stock series by the Bureau of Economic Analysis only slightly affected the estimates of fixed capital for other industries, but it doubled the value of fixed capital in these capital intensive industries.

Figure 1 Profit rates (1948-1997): US Manufacturing (—) and Nonmanufacturing industries (---)

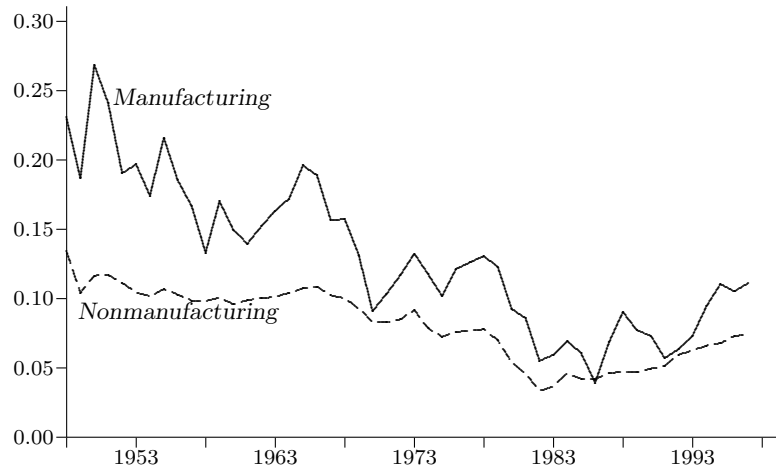
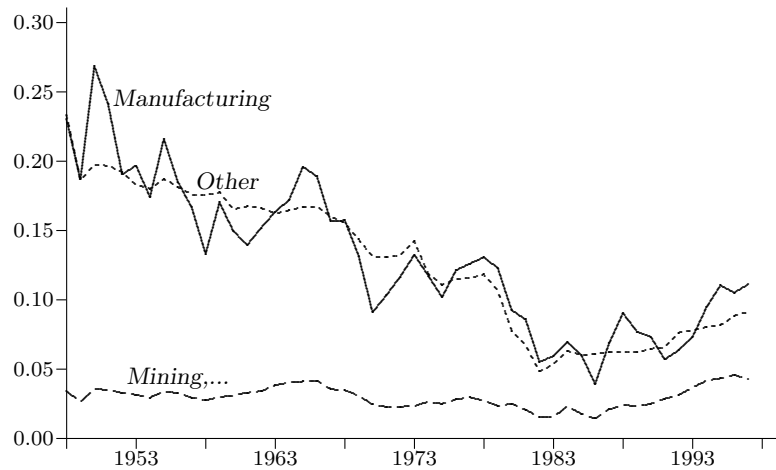


Figure 2 Profit rates (1948-1997): US Manufacturing (—), Mining, Transportation and Public utilities (---), and other industries (-----)



$$\text{Profit rate} = \frac{(\text{Net product} - \text{Labor compensation} - \text{Indirect bus. taxes} - \text{Net interests})}{(\text{Fixed capital} + \text{Inventories})}$$