# *MARX'S ECONOMIC THEORY AND CONTEMPORARY CAPITALISM*

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1. It is often said these days (especially by economists) that Marx's theory is "dead" or "obsolete". It is argued in this paper that this assertion is blatantly false. The dominant purpose of capitalist production is *profit*, and therefore the explanation of profit should be the main goal of a theory of capitalism. Marx's theory provides a logically coherent theory of profit, which has considerable explanatory power (to be discussed below). Marx's theory also provides a logically coherent and empirically strong theory of the trend in the rate of profit over time. In striking contrast, mainstream economic theories provide *no* coherent theory of profit, and *no* theory at all of the trend in the rate of profit over time. Therefore, far from being "dead", if we want to understand profit and the rate of profit, Marx's theory is absolutely essential. There is simply no other credible theory of profit and the rate of profit available, besides Marx's theory.
2. The first two sections of this paper briefly review Marx's theory of profit and the trend in the rate of profit. The third section applies Marx's theory to the postwar US economy. The paper concludes with an assessment of the likelihood of another Great Depression in the US economy in the years ahead, based on Marx's theory.

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## I. MARX'S THEORY OF PROFIT

3. Marx's theory provides the best theory by far of profit, the all—important dominant purpose of capitalist production, and the main question in a theory of capitalism. Mainstream economic theories provide almost no theory of profit at all, and certainly no theory with comparable explanatory power to Marx's. Mainstream macroeconomic theory has not theory of profit at all; in other words mainstream macroeconomics attempts to provide a theory of capitalism without a theory of profit! It is like trying to have a theory of the Catholic church without the Pope. Mainstream microeconomics has attempted to provide a theory of profit (or what it calls interest), the "marginal productivity" theory, according to which interest is determined by the marginal productivity of capital. However, this theory has been shown to be logically contradictory (as a result of the "capital controversy"), and has little or not explanatory power. This theory is now in general disrepute and is being quietly dropped (in hopes that no one will notice) from microeconomics textbooks at both the graduate and undergraduate levels.

4. Marx's theory, by striking contrast, provides a logically robust theory of profit with very impressive explanatory power. Marx's theory of profit is of course that profit is produced by the surplus labor of workers. That is, it only takes a part of the working day for workers to produce value equal to their wages (the "necessary labor" portion of the working day). In the remainder of the working day, the value produced by workers becomes the profit of capitalists. Therefore, Marx's theory concludes that the profit of capitalists is the result of the exploitation of workers, because the value produced by workers is greater than the wages they are paid.

5. It follows from this theory that capitalist is inherently and unavoidably an unjust and exploitative economic system. Capitalism cannot exist without profit, and profit cannot exist without the exploitation of workers. No amount of reforms within capitalism can alter this basic fundamental truth. If we want a just and equitable economic system without exploitation, then Marx's theory suggests that we must change the economic system from capitalism to socialism.

6. Marx's theory of profit has considerable explanatory power (see Moseley 1995 for a comprehensive appraisal of the explanatory power of Marx's theory). One important conclusion that follows form Marx's theory of profit is an inherent *conflict over the length of the working day*. Since the amount of profit is determined by the amount of surplus labor, capitalists will continually attempt to increase the length of the working day in order to increase surplus labor, or will resist attempts of workers to reduce the length of the working day. Thus a conflict over the length of the working day is inevitable in capitalism. This conclusion is obviously supported by the empirical evidence of actual conflict over the length of the working day throughout the history of capitalism.

7. A conflict over the working day cannot be deduced from the neoclassical marginal productivity theory of interest. According to this theory, interest depends on the marginal productivity of capital and does not depend in any way on the length of the working day.

8. Furthermore, according to the neoclassical theory of the supply of labor, the working day is determined by the workers own preferences; i.e. workers choose by themselves the length of their working day! Thus, according to this theory, there should be no conflict between capitalists and workers over the length of the working day. This theory simply

does not fit the facts of a persistent conflict over the working day, whereas Marx's theory of profit provides a clear and coherent explanation of this pervasive conflict.
9. A related conclusion of Marx's theory of profit is the inherent *conflict over the intensity of labor effort*. This prediction also follows directly from Marx's surplus labor theory of profit, in the same way as the conflict over the length of the working day just discussed. An increase in the intensity of labor is an alternative way, besides an increase of the working day, of increasing the total labor and thus of increasing the surplus labor (an "intensive" increase of labor rather than an "extensive" increase). This conclusion is also strongly supported by the empirical evidence of the pervasive, ever—present conflict over the intensity of labor within capitalist workplaces, as every worker knows.
10. By contrast, the neoclassical marginal productivity theories of interest provides no explanation of the conflict between capitalists and workers over the intensity of labor. Instead, according to this theory, interest is independent of the intensity of labor. Therefore, these theories cannot explain why there should be a conflict over the intensity of labor.
11. Another very important conclusion derived from Marx's theory of profit is the inherent tendency toward *technological change* in capitalist economies. Marx' theory of profit argues that, since the amount of profit depends on the amount of surplus labor, the development capitalism will be characterized by continual attempts to increase the surplus labor portion of the working day. Once legal limits to the length of the working day are established, the primary means by which surplus labor can be increased is through technological change which increases the productivity of labor and which thereby reduces necessary labor.
12. The historical evidence obviously strongly supports this definite prediction of Marx's theory. Continual technological change which increases the productivity of labor is one of the most prominent characteristics of capitalist economies. By contrast, neoclassical theory provides no explanation of the necessity of technological change in capitalist economies. Instead, technology in neoclassical economics is generally treated as "exogenously given" and constant.
13. The most important conclusion of all that is derived from Marx's theory of profit is the tendency of the rate of profit to fall over time, during periods of expansion. This all — important conclusion will be discussed in the next section.

## II. MARX'S THEORY OF THE FALLING RATE OF PROFIT

14. Marx's theory is the only economic theory to provide a general theory of the rate of profit and its trend over time. In mainstream macroeconomics, as we have seen, profit, and hence the rate of profit, is not a variable at all. The microeconomic marginal productivity theory of profit (or interest) is entirely static, which means that the theory is limited to one period of analysis, in which there is no technological change. Therefore, aside from its internal logical contradictions, marginal productivity theory does not even attempt a theory of the trend in the rate of profit.
15. I assume that participants in this conference are familiar with Marx's theory of the falling rate of profit. I will just review the highlights to remind us of the most important points. I will express Marx's theory in non—technical terms, with occasional translation

into technical terms (see Moseley 1991, Chapter 1, for a further discussion of Marx's theory of the falling rate of profit).

16. Marx's theory of the falling rate of profit focuses on the effects of *technological change* —an inherent, ever—present feature of capitalist economies (although entirely ignored by mainstream economics), as we have seen. Marx's theory argues that technological change tends to *replace workers with machines* (i.e. is "labor—saving"), and thus tends to reduce the number of workers employed in relation to the total capital invested. However, since profit is produced by workers, the reduction in the number of workers employed also reduces the amount of profit produced, in relation to the total capital invested. In other words, the rate of profit (the ratio of profit to the total capital invested) will decline. Expressed inversely, technological change causes the total capital invested to increase faster than the number of workers employed, or causes the average *capital invested per worker* to increase, which in turn causes the rate of profit to fall. In Marx's terminology, technological change causes the composition of capital (the ratio of constant capital to variable capital) to increase, and thus causes the rate of profit to fall.

17. Marx's theory argues further that the negative effect on the rate of profit of technological change that increases the capital per worker is partially offset by increasing the *profit produced by each worker*, which also tends to increase as a result of the same technological change. As we have seen above, technological change increases the productivity of labor, which reduces necessary labor and thereby increases surplus labor; i.e. increases the profit produced per worker. This positive effect of technological change and higher productivity on the profit produced per worker is also reinforced by other ways to increase the profit per worker, such as wages cuts and increases in the intensity of labor. In Marx's terminology, an increase in the composition of capital is offset by an increase in the rate of surplus—value (the ratio of surplus—value or profit to variable capital only; where variable capital is the wages of workers).

18. However, Marx's theory argues that there are *inherent limits* to the increase in the profit produced by each worker. The main limit is that there are only so many hours in the working day, and so it becomes harder and harder to increase the profit produced by each worker in a given working day. Another limit is the resistance of workers, who usually fight against wage cuts and fight for higher wages and a share of the benefits of the higher productivity. As a result of these limits, Marx's theory concludes that "labor—saving" technological change will eventually cause the rate of profit to decline. According to Marx's theory, the rate of profit falls, not because workers are exploited less, but in spite of the fact that workers are exploited more, because fewer workers are employed, in relation to the total capital invested.

19. It is important to emphasize that, according to Marx's theory, the decline of the rate of profit is not an accident or due to "external causes". Rather, the decline of the rate of profit is the result of capitalism's own internal dynamics, characterized by continual "labor—saving" technological change which replaces workers with machines. As Marx put it, "the *true barrier* to capital is *capital itself*" (Marx, 1981, p. 358).

20. Marx argued further that a decline in the rate of profit would eventually cause the rate of capital accumulation slow down, which in turn would bring on a general recession or depression. Another important element in the development of crises and depressions, which Marx discussed, but did not fully develop, is the *increasing debt* of capitalist firms during a

period of expansion. Capitalist enterprises can temporarily overcome the limits of a declining rate of profit by increased borrowing, but this temporary expedient increases their vulnerability to downturns and thereby intensifies the severity of the eventual depression when it comes (see Crotty 1992).

21. Marx's theory is the *only* economic theory to predict that capitalism has a tendency toward period crises and depressions. According to Marx's theory, crises and depressions are not accidents, or due to "exogenous shocks", but are instead inherent and inevitable due to the nature and internal dynamics of capitalism itself. This history of the "boom—bust" cycle throughout the 19th and 20th centuries strongly supports this all—important conclusion of Marx's theory.

22. Marx's theory of the falling rate of profit and depressions also implies definite "pre—conditions for recovery" from depressions. Since the main cause of depressions is a decline in the rate of profit, the main precondition for recovery is an increase in the rate of profit. According to Marx's theory, there are two ways to increase the rate of profit: increase the profit produced per worker or reduce the capital invested per worker. Marx argued that, although increasing the profit per worker (through wage cuts, speed—up, etc.) would help raise the rate of profit, such an increase by itself would usually not increase the rate of profit enough to end a depression. Since the prior decline in the rate of profit was caused by an increase in the capital per worker (not a declining profit per worker), restoring the rate of profit requires a lower capital invested per worker, or what Marx called the "devaluation of capital". The main way this devaluation of capital is accomplished during depressions is the *widespread bankruptcies* of capitalist firms, which are caused by the combination of falling profits and rising debts. As a result of bankruptcies, surviving firms are able to purchase the productive assets of the bankrupt firms at a very low price, thereby reducing the amount of capital invested per worker and raising their rate of profit. This process of bankruptcies, etc. continues until the capital per worker has been reduced enough and the rate of profit increased enough in the economy as a whole for capital accumulation to resume and eventually for a period of recovery and expansion to begin (unless of course workers have succeeded in overthrowing capitalism during the depression, which is what Marx hoped for). Of course, widespread bankruptcies also worsen the economy in the short run, and many times in the past have turned a recession into a depression.

## III. POSTWAR UNITED STATES ECONOMY

### 1. FALLING RATE OF PROFIT

23. Marx's theory of the falling rate of profit is strongly supported by the facts of the postwar US economy. During the period of expansion and relative prosperity from the end of World War II to the mid —1970s, the rate of profit in the US economy declined almost 50%, from around 22% to around 12% (see Figure 1; see Moseley 1991 for a description of the sources and methods used to derive these estimates.) This significant decline in the rate of profit appears to have been part of a general world—wide trend during this period, in all major capitalist economies.

**2. FIGURE 1 SHOULD BE INSERTED ABOUT HERE**

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24. According to Marxian theory, this very significant decline in the rate of profit was the main cause of both of the “twin evils” of higher unemployment and higher inflation, and hence also of the lower real wages, of recent decades. As in periods of depression of the past, the decline in the rate of profit reduced the rate of capital accumulation, which in turn has resulted in slower growth and higher rates of unemployment. One important new factor in the postwar period is that many governments in the 1970s responded to the higher unemployment by adopting expansionary Keynesian policies (more government spending, lower taxes, lower interest rates) in attempts to reduce unemployment. However, these government policies to reduce unemployment generally resulted in higher rates of inflation, as capitalist firms responded to the government stimulation of demand by raising their prices at a faster rate in order to restore the rate of profit, rather than by increasing output and employment.

25. In the 1980s, financial capitalists revolted against these higher rates of inflation, and have generally forced government to adopt restrictive policies (less spending, higher interest rates). The result was less inflation, but also higher unemployment. Therefore, government policies have affected the particular combination of unemployment and inflation at a particular time, but the fundamental cause of both of these “twin evils” has been the decline in the rate of profit.

26. It is striking that mainstream explanations of the stagflation of recent decades has completely ignored the very significant decline in the rate of profit. These mainstream explanations emphasize “exogenous shocks” (i.e. accidents), such as government policy mistakes, the OPEC oil price increase, a mysterious slowdown in productivity growth, etc. According to Marx’s theory, all these factors are not “exogenous shocks”, but are instead themselves caused by the decline in the rate of profit. By ignoring the rate of profit, mainstream explanations miss this fundamental cause and remain on the level of superficial appearances.

27. The significant decline in the rate of profit in the postwar US economy was due mainly to the cause predicted by Marx’s theory — technological change, which increased the capital invested per worker faster than the profit produced per worker. In Marx’s terms, technological change caused the composition of capital to increase faster than the rate of surplus —value. From 1950 to 1975, the rate of surplus —value increase approximately 20%, and the composition of capital increased approximately 50%, thereby causing the rate of profit to fall (see Moseley 1991, Chapter 3, for a full discussion of these estimates).

28. Another important cause of the decline of the rate of profit in the postwar US economy, which Marx did not emphasize, but which follows from his theory, was a very significant increase in the *ratio of unproductive labor to productive labor* during this period. According to Marx’s theory, profit is not produced by *all* employees in capitalist firms, but only by workers engaged directly or indirectly in production activities (actually making or designing or transporting something), which Marx called “productive labor”. There are two other main groups of employees who are *not* engaged in production activities, which Marx called “unproductive labor”: “sales” employees (sales and purchasing, accounting,

advertising, finance, etc.) and "supervisory" employees (managers, supervisors, "bosses" in general). These two groups of unproductive labor, although entirely necessary within capitalist firms, nonetheless do not themselves produce value and profit (see Moseley 1991, Chapter 2, for a further discussion of Marx's concepts of productive and unproductive labor).

29. According to Marx's theory, if unproductive labor (which does not produce profit) increases faster than productive labor (which does produce profit), this will also cause the rate of profit to fall, because costs are increasing, but profit is not, for the economy as a whole. This is what happened in the postwar US economy: the ratio of unproductive labor to productive labor almost doubled from 1950 to 1975, and this very significant increase contributed to the decline in the rate of profit. This increase in the ratio of unproductive labor to productive labor also seems to have been due in large part to technological change, which increased the productivity of production workers more rapidly than that of non — production workers, and which therefore required more and more sales workers to sell the more rapidly increasing output of production workers (see Moseley 1991, Chapter 5, for a further discussion of the causes of the relative increase of unproductive labor).

30. Therefore, according to Marx's theory, there were two main causes of the decline of the rate of profit in the postwar US economy from the late 1940s to the mid —1970s: an increase in the capital invested per worker, and an increase in the ratio of unproductive labor to productive labor. Both of these causes were themselves the result of technological change, an inherent feature of capitalist economies. Therefore, the decline of the rate of profit in the postwar US economy was not due to accidental, external causes ("exogenous shocks"), but was instead due to the inherent dynamic of technological change.

### 3. ATTEMPTS TO INCREASE THE RATE OF PROFIT

31. Capitalists have responded to the decline in the rate of profit by attempting to restore the rate of profit in a variety of ways. We have already mentioned the strategy of inflation, i.e. of increasing prices at a faster rate. Capitalists have also attempted to slow down wage increases, and in some cases even to cut wages. Another strategy has been to make workers work harder and faster; i.e. "speed —up". Such a "speed —up" in the intensity of labor increases the value produced by workers and therefore increases profit and the rate of profit. The higher unemployment of this period contributed to this "speed —up", as workers have been forced to compete with each other for the fewer jobs available by working harder. One common business strategy has been "down —sizing", i.e. layoff 10 — 20% of a firm's employees and then require the remaining employees to do the work of the laid —off employees. This method also generally increases the intensity of labor even before the workers are laid off, as all workers work harder so that they will not be among those who are laid off.

32. We can see that the strategies of capitalist enterprises to increase their rate of profit in recent decades have in general caused suffering for workers — higher unemployment and higher inflation, lower living standards, and increased stress and exhaustion on the job. Marx's "general law of capitalist accumulation" — that the accumulation of wealth by capitalists is accompanied by the accumulation of misery for workers — has been all too true in recent decades.

33. Another strategy to reduce wage costs has been to move their production operations to low —wage areas of the world. This has been the main cause behind the so —called “globalization” of recent decades — a *world —wide search for lower wages in order to increase the rate of profit*. NAFTA has been another strategy by US capitalists to increase their rate of profit, by giving them free access to Mexican markets and cheaper Mexican labor. However, this increased competition from US companies will also have a negative effect on Mexican companies and will force many of them into bankruptcy (especially small and medium —sized businesses), as we have already seen. In this way, the most harmful effects of the crisis of profitability are shifted from US companies to Mexican companies.

34. However, the startling fact is that, despite the decline in real wages and the “speed — up” of workers’ labor, the rate of profit in the US *has not increased very much* since the 1970s! (see Figure 1). There have been cyclical increases in the rate of profit, especially in the 1990s, but most of these increases have been wiped out in the subsequent downturn, so that overall the rate of profit has recovered only about a third of its previous decline. The rate of profit today (2003) remains about 30% below the early postwar peaks. This absence of a full recovery in the rate of profit is the main reason why the US economy has not returned in recent decades to the faster growth and more prosperous conditions of the early postwar period.

35. According to Marx’s theory, the reasons why the rate of profit has not increased very much, in spite a significant increase in the profit produced per worker (by means of wage —cuts, speed —ups, etc.), is that the two main causes of the prior decline in the rate of profit have not yet been reversed — the increases in the capital invested per worker and in the ratio of unproductive labor to productive labor. The capital invested per worker has continued to increase since the 1970s, although at a much slower rate. There have not yet been the widespread bankruptcies which would devalue capital and significantly reduce the capital per worker. The ratio of unproductive labor to productive labor has also continued to increase, at roughly half the rate as in the early postwar period. These are the main reasons why the increase in the rate of profit since the 1970s has been so small.

## 4. UNPRECEDENTED DEBT

36. In spite of the fact that the recovery of the rate of profit has been so weak and incomplete, the rate of growth of the US economy since the mid —1970s has not been too bad. The recession of 1980 —82 was the worst of the postwar period, but there has been no serious recession since then. The main reason for this not —too —bad rate of growth over this period has been an unprecedented expansion of debt of all kinds — business debt and household debt and foreign debt. This debt has enabled businesses to continue to invest and households to continue to spend, but now their much higher debt levels leaves them with a much higher risk of defaults, bankruptcies, etc.

37. For nonfinancial corporate businesses, the ratio of debt to profit is shown in Figure 2. We can see that the current level of debt is about five times higher than it was in 1950 and twice as high as it was in 1980. Furthermore, the bankruptcies of Enron and WorldCom and other companies have revealed that much debt can be kept “off the books” by questionable accounting practices, which became increasingly prevalent in the 1990s. Therefore, Figure 2 understates the real debt burden of nonfinancial corporations, who are therefore even

much more vulnerable to defaults, bankruptcies, etc. The dip in the 1990s was probably due to the increasing transfer of debt from the books of nonfinancial corporate businesses to “special purpose vehicles”. And then the use of these “vehicles” accelerated in the late 1990s.

## IV. FIGURE 2 SHOULD BE INSERTED ABOUT HERE

**38. please see end of paper** : The ratio of household debt to disposable income is shown in Figure 3. We can see that this ratio has approximately tripled since 1950, with most of the increase coming since 1980, and is now over 100% for the first time in US history. The rapid increase of household debt during the late 1990s made possible the extraordinary “spending spree” of US households during these years. And this rapid increase of debt and strong consumer spending has continued even during the recession in 2001 and the weak recovery in 2002, as capitalist firms who are desperate to sell their goods offered customers more and more credit in order to be able to sell them (e.g. the “zero percent” loans of the automobile companies). However, as a result of this “borrow and spend” spree, US households are in more danger than ever before of defaults and bankruptcies, etc.

#### 1. FIGURE 3 SHOULD BE INSERTED ABOUT HERE

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39. Another very important fact is that much of the money borrowed by US businesses and households has come from foreign investors. From the early 1980s (when the US became a “debtor nation” for the first time since before World War I) to 1994, the average annual net inflow of foreign capital was just under $100 billion, for a total of over $1 trillion (see Figure 4). This increasing dependence on foreign capital by the richest nation in the world is unprecedented in world history, and is sharp contrast both to the US economy during the long post World War II boom and also to the UK economy in the 19th century, in which these leading nations were net exporters of capital, not net importers; i.e. were net creditors to the rest of the world, rather than net borrowers.

#### 2. FIGURE 4 SHOULD BE INSERTED ABOUT HERE

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40. However, what is even more striking is the sharp increase in the inflow of foreign capital from 1995 to 2000, which adds up to an additional $1.5 trillion in these years alone. This amount was equal to approximately 20% of gross private investment in the US during these years. This is a tremendous infusion of foreign capital, even by callosal US standards. Much has been said in recent years about the foreign debt problem of developing countries around the world. The current deep economic and social crisis in Argentina is due in large part to a foreign debt of about $140 billion. In recent years, the US has borrowed more than $140 billion or more every year! The US foreign debt is now greater than the total foreign debt of all the developing countries of the world *combined*!

41. This huge inflow of foreign capital contributed significantly to the "boom" in the US economy in the late 1990s, in a number of ways: by reducing interest rates, which in turn increased investment spending and also lowered the debt burdens of US corporations and households; by keeping the dollar strong in spite of record US balance of trade deficits; by increasing stock prices which stimulated consumer spending; and by increasing government revenue and budget surpluses as a result of the faster growth. *Without this huge inflow of foreign capital, the US economic "boom" of the late 1990s never would have happened*. Of course, these beneficial effects for the US economy were counterbalanced by the opposite harmful effects on the countries which suffered an outflow of capital to the US.
42. However, this huge inflow of foreign capital also will have its disadvantages for the US economy in the future. In the first place, interest and dividends, etc. will have to be paid on this foreign capital in future years; that is, a part of the income produced in the US economy every year will have to be used to pay interest and dividends to foreign investors, thereby draining income from the US economy. Furthermore, these payments to foreigners will increase the already record US current account deficit, which in turn will require even more inflows of foreign capital in order to avoid a devaluation of the dollar. It could become a vicious circle, in which increasing inflows of capital require increasing future payments, which in turn require increasing inflows of capital. Obviously, this escalating spiral of payments and loss of income cannot go on forever.
43. This increasing dependence on foreign capital also makes the US economy increasingly vulnerable to an eventual outflow of this foreign capital, or even to a reduction in the rate of inflow. If the rate of inflow slows down, for whatever reason (see below), then interest rates in the US are likely to rise, which would have a negative effect on investment spending and on the rate of growth of the US economy. In the worst case of a withdrawal of foreign capital, then these negative effects would be greatly magnified. Such a "capital flight" from the US would also put downward pressure on the dollar, which could further intensity the capital outflow. In these circumstances, the Federal Reserve Board would probably increase interest rates further in order to stop the outflow of capital. Such higher interest rates might succeed in stopping the capital flight, but it would also be at the expense of the US economy, further depressing investment spending and also increasing the already heavy debt burden of US corporations and households, thereby increasing the likelihood of more defaults and bankruptcies.
44. In sum, the US economy has been able to avoid the usual worst effects of a decline in the rate of profit because of an unprecedented expansion of debt for both capitalist firms and for households, which has maintained capital accumulation and consumer spending, in spite of the decline of the rate of profit and stagnant real wages. And much of this debt has been financed by an enormous, unprecedented inflow of foreign capital to the US. However, this increasing dependence of the US economy on foreign capital raises the very real risk that in the not —too —distant future foreign investors will no longer be willing to lend money to the US. If that happens, then the US economy would be in serious trouble.

## V. CONCLUSION

45. Therefore we can see that Marx's economic theory is indispensable for an understanding of contemporary capitalism, and especially the limits and contradictions of

contemporary capitalism. Marx's theory provides the only theory of profit, the most important characteristic of capitalist economies, and the only theory of the trend in the rate of profit, the most important factor in determining the boom —bust cycle of capitalism. Marx's theory of profit and the rate of profit also enables us to understand the stagflation of the US economy in recent decades, as the result of the significant decline in the rate of profit in the early postwar period.

46. Marx's theory of the falling rate of profit also enables us to understand much of what has happened in the US and world economy since the 1970s —inflation, wage —cuts, speed—up, globalization, NAFTA, etc. —as attempts by capitalists to restore the rate of profit back up to its early postwar levels. Marx's theory also explains why the rate of profit has not increased significantly over this period, in spite of all these aggressive attempts to increase it—because the capital invested per worker has not yet been reduced through bankruptcies, etc., and the ratio of unproductive labor to productive labor continues to increase.

47. Finally, Marx's theory also suggests that sooner or later, and very likely within the next decade, the US economy will suffer another serious depression—and perhaps even on the scale of the Great Depression of the 1930s. The combination of a low rate of profit and unprecedented levels of debt will eventually cause widespread bankruptcies of both businesses and households, which in turn would probably cause the flight of foreign capital, and an even worse depression. Such a depression might be avoided for another few years, by even further increases of debt, both domestic and foreign, but such a further debt expansion would also make the eventual depression even worse.

48. A deepening depression in the US economy would obviously have devastating effects on the economies of the rest of the world, including Latin America. Many of these economies are already in or close to a depression. The major hope for recovery for many of these economies is to increase exports to the US. If this hope disappears, then these economies could remain in a serious depression for years to come, which in turn would have further negative feedback effects on the US economy.

49. Such a worsening crisis of global capitalism would inflict great suffering—loss of jobs, lower incomes, greater hunger and poverty, greater anxiety and desperation, etc. —on the world's working population, especially in developing countries. How would workers in the US and around the world respond to this widespread and increasing misery? In seems likely that in the next few years workers all over the world will be forced to choose between passively accepting higher unemployment and lower living standards or actively resisting these hardships and striving to defend their economic livelihood. It is possible that, as economic conditions deteriorate, these struggles by workers to maintain their living standards within a capitalism in crisis will lead more and more of them to call into question capitalism itself, and the adequacy of capitalism to meet their basic economic needs. If capitalism requires these attacks on our economic livelihood, then perhaps there is a better economic system that does not require such attacks and which could better satisfy our economic needs and wants. We should all direct our efforts toward that end.

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