Fall in the Rate of Profit in Business Cycles

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Abstract:

In this study, we examine the empirical relevance of cyclical variants of Marxian crisis theory under different institutional structures. Post-war U.S. economy has produced nine business cycles, four in the Golden Age, two during the transition period in the 1970s and two in the neoliberal period roughly starting in the early 1980s. Regardless of when it occurs and how long it lasts, each cycle follows a certain pattern as regards the movements of profit rate and real output. This regular pattern observed from the data let us determine three crucial cyclical phases, namely early expansion, late expansion and contraction. Late expansion is the phase where profit rate starts to decline from its peak as real output keeps increasing until it reaches its cyclical peak. Both profit rate and real output rise in the early expansion and both decline in the contraction. After having identified that profit rate leading the real output in the crucial late expansion in all cycles, we undertake further empirical works to unravel the factors responsible for the decline in the profit rate in this phase in the first place. This let us determine the variant(s) of Marxian crisis theory responsible for the cyclical downturn under different institutional structures.