Masters of Words

A reply to Michel Husson on the character of the latest economic crisis

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"I don't know what you mean by 'glory,'" Alice said.

Humpty Dumpty smiled contemptuously. "Of course you don't—till I tell you. I meant 'there's a nice knock-down argument for you!'"

"But 'glory' doesn't mean 'a nice knock-down argument,'" Alice objected.

"When *I* use a word," Humpty Dumpty said, in rather a scornful tone, "it means just what I choose it to mean—neither more nor less."

"The question is," said Alice, "whether you *can* make words mean so many different things."

"The question is," said Humpty Dumpty, "which is to be master—that's all."

—Lewis Carroll, *Through the Looking Glass*

1. Introduction

This paper replies to Michel Husson's (2009a; also Husson 2010) critique of my study of movements in the rates of profit of U.S. corporations (Kliman 2009). I showed that rates of profit fell markedly, beginning in the late 1950s and continuing through the early 1980s, and that no sustainable rebound in profitability took place between the trough year of 1982 and the trough year of 2001. Depending upon the particular measure of the rate of profit one considers, the rate of profit during that period either continued to decline, or stagnated, or increased extremely modestly. I argued that this persistent fall in profitability is an underlying cause of the latest economic crisis, since it led to sluggish accumulation of capital, sluggish economic growth, instability, and, above all, mounting debt problems.

I also argued that, while some leftist economists—Husson is one of them—claim that "the rate of profit" did rebound substantially, and thus that profitability problems are not an underlying cause of the economic crisis, their conclusions are based partly upon cherry picking of the data and partly upon the use of current-cost "rates of profit" that are simply not rates of profit in the normal sense of the term. Although the latter practice is sometimes defended on the ground that it is a way of producing inflation-adjusted estimates, I argued that *current-cost "rates of profit" do not adjust for inflation in a proper manner*, and I went on to report on my own estimates of movements in inflation-adjusted rates of profit. I found that their trends in the period since 1982 differed very little from trends in un-adjusted rates of profit.

Curiously, Husson's critique of my work does not defend the manner in which current-cost rates adjust for inflation, and I am not aware of anyone else who has done so, either. He ignores that issue and instead sets out to turn the tables. He criticizes my use of unadjusted (historical-cost) rates of profit. His major argument, however, is that the alternative procedure I used to adjust for inflation is "incorrect" and that my "error" results in the elimination of the substantial rebound in inflation-adjusted profitability that actually occurred.

Let me note that even if everything he says against the unadjusted rates of profit and my inflation-adjusted rates were correct, it would not constitute a defense of the use of the current-cost "rate of profit." Such a defense has evidently not yet been produced.

The next section of this reply discusses what is *ethically* at stake in this debate, and the final section discusses what is *politically* at stake. In between, I respond to the particulars of Husson's critique. Section 3 defends the use of unadjusted historical-cost rates of profit (alongside inflation-adjusted ones). Section 4 argues that Husson's critique of my inflation-adjustment procedure is much ado about nothing, since *an alternative adjustment procedure along the lines he recommends yields results that are almost identical to those I reported originally***.** Section 5 argues that the failure of current-cost "rate of profits" to adjust for inflation in a proper manner is responsible for almost all the rise, since 1980, in a key current-cost rate (the ratio of U.S. corporations' property income to the current cost of their fixed assets).

Husson argues that the low rate of accumulation we have experienced since the 1980s is not due to a failure of the rate of profit to rebound. Rather, he claims, it is due to a neoliberal "regime of accumulation" that has encouraged diversion of profits away from productive investment and into financial speculation. In Section 6, I briefly recapitulate the counter-argument I provided in

Kliman (2009), which Husson has not addressed. And Section 7 briefly clarifies a point that Husson (2010) seems not to have understood: the current-cost "rate of profit" conjures away a portion of advanced capital, and this leads to a spurious rise in the rate of profit, when prices or the rate of inflation are falling.[1]

2. What is at Stake Ethically?

This reply's title and epigraph are directed at the work of physicalist-Marxist and Sraffian economists generally, not that of Husson in particular. They refer to an ethical matter, one that concerns the responsibility of intellectuals when communicating with the public.

Physicalist-Marxist and Sraffian economists use the terms *rate of profit* or *profit rate* to refer to profit as a percentage of the amount of money that would currently be needed to replace the capital assets, i.e., the assets' replacement cost, also known as their current cost. To almost everyone else, however, what these terms *mean* is profit as a percentage of the book value of the capital assets. The book value is the amount of money that was actually advanced (i.e., invested) in the past the order to purchase the capital assets—their historical cost —minus depreciation and similar charges. For instance, this is how the term is defined in the *MIT Dictionary of Modern Economics* (1992):

> **profit rate.** PROFIT expressed as a proportion of the book value of capital assets.

This is how it is defined in the *Encyclopedia of Small Business (http://www.enotes.com/small-business-encyclopedia/profit-margin):*

> the rate of profit (sometimes called the rate of return) …comprises various measures of the amount of profit earned relative to the total amount of capital invested …. [T]he profit rate measures the amount of profit per unit of capital advanced ….

And this is how Marx (1991a, p. 133, emphasis in original; 1991b, p. 91) defined it:

> The surplus-value [*s*] or profit … is consequently an excess over and above the total capital advanced. This excess then stands in a certain ratio to the total capital, as expressed by the fraction *s/C,* where *C* stands for the total capital. We thus obtain the *rate of profit*[,] *s/C* ....
>
> Profit . . . expresses in fact the increment of value which the total capital receives at the end of the processes of production and circulation, over and above the value it possessed before this process of production, when it entered into it.

Because this is what *rate of profit* means to almost everyone, when they read or hear that "the rate of profit" has consistently risen since the early 1980s, they are seriously misled into thinking that there has been a recovery in what businesses, investors, Marx, and they themselves mean by the rate of profit.

However, no such recovery has taken place. So physicalist-Marxist and Sraffian economists have a responsibility, when engaging in public communication, to avoid saying things that will inevitably be understood as statements that there *has* been such a recovery. Ideally, they should avoid trying to make *rate of profit* mean just what they choose it to mean—neither more nor

[1] References, sources of data, and a Technical Appendix appear at the end of the text.

less—and find a different term for what they now insist upon calling "the rate of profit." But if this is somehow too much to ask for, they should at the very least let the public know that "what we mean by 'the rate of profit'—which is not what businesses and investors mean, or that Marx meant, but is instead the ratio of profit to the replacement cost of capital—has consistently risen since the 1980s."

Definitions of one's variables that are buried in the middle of technical papers are not adequate substitutes for such clarifications. Most people who hear talks or read interviews will not read the technical papers. Even those who do read them will frequently not realize that "fixed assets valued at current cost" differs from "the amount of money actually spent to acquire fixed assets, minus depreciation" unless this is pointed out explicitly. But intellectuals—especially radical intellectuals—have a responsibility to promote understanding, not misunderstanding, among the public. If they instead become the masters of words, they likewise become the masters of public discourse rather than its servants.

3. A Physicalist Illusion and a Simultaneist Illusion

Although the title of his paper is "Les Coûts Historiques d'Andrew Kliman," Husson (2009a) acknowledges that valuation of profits and advanced capital in historical-cost terms is not something I suddenly dreamed up:

> It is also the accounting rule that is used in business accounting.
>
> This approach seems correct at first sight. But it attributes to capitalists a nominalist illusion, that of not taking inflation into account.

Excuse me? Hundreds of thousands of business accountants are employed by capitalist firms to keep track of their finances, and the reason they why use historical-cost accounting to keep track of them is that they all suffer from this nominalist illusion?

Aren't there any good reasons? There are. A crucial one is that businesses do not use money only to buy goods and services. It is also what they use to pay back debt and pay taxes.

If businesses used money only in order to buy goods and services, then it wouldn't matter how much money profit they have. All that would matter is the quantity of goods and services that the money can buy. In that case, it would indeed be a nominalist illusion to think that one's business is 10% better off this year than last, simply because its money profits are 10% greater. If prices have risen by 10% in the meantime, the business would not be better off, because the quantity of goods and services it can buy with its profit is no greater than last year.

But this conclusion depends wholly on a *physicalist illusion,* that of not taking debt and taxes into account. Businesses also use—and need—money in order to pay back debt and pay taxes. And in this case, the *nominal* amount of money they have makes a *real* difference. If prices have risen by 10%, then a profit of $11 million this year will indeed only purchase as much physical stuff as a profit of $10 million purchased last year. But it will allow the business to pay back $1 million more debt than it was able to pay back last year.

If a debt of more than $10 million has come due, then the $1 million difference in profit that results from inflation is the difference between solvency and bankruptcy, or solvency and being taken over by the government. This is an extremely important difference in a situation such as that which exists in the U.S. (and elsewhere) today. As Tyler Cowen (2009, emphases added), a conservative economist, stressed a couple of months ago, when a great many banks are "near the bankruptcy or nationalization constraint, it's often *nominal profits that matter* (relative to fixed nominal liabilities, accounting standards, capital standards, etc.), *not 'real profits'* defined relative to the CPI [Consumer Price Index]."

In the third chapter of *Capital*, Marx (1990, p. 236) exposed the physicalist illusion in much the same manner*:*

> [Prior to the monetary crisis, the] bourgeois, drunk with prosperity and arrogantly certain of himself, has just declared that money is a purely imaginary creation. 'Commodities alone are money,' he said. But now the opposite cry resounds over the markets of the world: only money is a commodity. As the hart pants after fresh water, so pants his soul after money, the only wealth.

Both Husson and Gérard Duménil, another physicalist-Marxist economist, have recently dismissed the historical-cost rate of profit on the ground that it does not remove profits that result from inflation. In the discussion period following a recent conference presentation of mine, Duménil ridiculed its use as follows:[2]

> It's absolutely impossible to contend that historical-cost profit rates are the variable you should look at. … If I summarize your [Kliman's] interpretation of the history of capitalism, I can summarize it in one sentence: "Neoliberalism killed capitalism because it stopped inflation." … Because if neoliberalism hadn't ended inflation, they [businesses] would have had extremely nice profit rates. Okay. Why do capitalist classes hate inflation? They hate inflation for some good reasons. But if you're looking at the historical-cost profit rate, … inflation is the solution to all problems.

With all due respect to Duménil's considerable talents as a satirist, one key error he makes here is to confuse and conflate the interests of creditors with the interests of "capitalist classes." Similarly, Husson (2009a) shows that inflation hurts creditors and then "transpose[s] this reasoning" to the rates of profit of businesses—i.e., he makes a flawed analogy.

Yes, the slowdown in inflation that took place "under neoliberalism" certainly helped creditors and it was consistent with their interests. But businesses are typically net *debtors*, not net creditors, and U.S. corporations taken as a whole carry a massive load of debt. In the third quarter of 2009, for instance, their outstanding bond-market debt—which does not include such debts as commercial paper and bank loans—was $6.9 trillion, an amount equal to 100% of domestic corporations' annual net value added and to 79% of the historical cost of U.S. corporations' fixed assets at the end of 2008.

Now, just as creditors benefit from a slowdown in inflation, debtors suffer, because their incomes—profits, wages, etc.—decline or rise more slowly in relationship to the debts they owe.

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[2] I have transcribed his remarks from the audio file available at http://sites.google.com/site/radicalperspectivesonthecrisis/audio-video/audiohistoricalmaterialism2010nyc-originsofthecrisis-moseleyklimanmohun. Duménil's comments on this issue begin approximately 6 1/2 minutes from the start of the fourth of the four files, "origins of the current crisis-PIV-QandA.WMA."

For instance, in my example above, the business would suffer in its role as debtor if prices did *not* rise by 10%. It would have $1 million less profit, and this could potentially cause it to go bankrupt or be taken over by the government.

Economists such as Duménil and Husson seem to get a lot of mileage out of the word *inflation,* which often has negative connotations. It may seem quite reasonable to deny that businesses benefit from inflation. It may seem less reasonable to deny that they benefit when they get more money for the products they sell now in relationship to the costs they incurred in the past. But inflation is *precisely* a matter of products selling for more money now than they cost in the past. The two statements mean the same thing! So how do Husson, Duménil, and the rest of the physicalist-Marxist and Sraffian economists justify the fact that they deny that businesses benefit when they get more money for the products they sell now in relationship to the costs they incurred in the past?

Their other key error, which is in fact the source of the physicalist illusion, is what we may call a *simultaneist illusion,* in which the world is depicted as if it started afresh at each new moment. As Marx (1973, p.136) remarked, "The rise and fall in the value of gold or silver [i.e., deflation or inflation—AJK] would be quite irrelevant if the world could be started afresh at each new moment and if, hence, previous obligations to pay a certain quantity of gold [i.e., money—AJK] did not survive the fluctuations in the value of gold."

In such a world, if prices fell by 10%, causing a business' sales revenue to decline by 10%, the costs it incurred in the past would retroactively fall by 10% as well, so its profitability would not fall. And the business' creditors would have to reduce its debt by 10%, because they would not be legally entitled to a certain sum of money. They would only be entitled to a certain amount of goods and services and, after the fall in prices, it would take 10% less to buy that amount of goods and services.

This not the world in which we live.

4. Much Ado About Nothing: Husson's Critique of My Inflation-Adjustment Procedure

On the other hand, some corporations, especially financial ones, are net creditors, and inflation can negatively affect businesses whose costs rise more quickly than their sales revenues. For these reasons, and because it is sometimes important to isolate inflation and other factors as distinct causes of changes in profitability, it is sometimes helpful to consider inflation-adjusted rates of profit *in addition to* the unadjusted rates, as I did in Kliman (2009). However, Husson contends—and this is by far his *major* objection to my empirical study of U.S. corporations' profitability—that my inflation-adjustment procedure is "incorrect."[3]

[3] As far as I can determine, this is one of only three objections he makes. He also dislikes the fact that I analyzed unadjusted historical-cost rates of profit in addition to inflation-adjusted ones; I have dealt with that above. Finally, he objects to the fact that I used the GDP price index instead of fixed asset prices when adjusting for inflation. This objection is based on his claim, to which I shall respond in section 5, that "the principal function of profit is to fund accumulation."

Whatever merit his objection may have in theory,[4] I shall show below that it turns out to have very little practical significance for the key issue under discussion—the trajectory of rates of profit of U.S. corporations during the three decades. *Its practical significance is minimal because there is only a very slight difference between the trends in my deflated rates of profit and the trends that result when depreciation figures are deflated in a manner like the one Husson proposes. Whichever procedure is used, no sustainable rebound in inflation-adjusted rates of profit took place since the early 1980s.*

To remove the effect of inflation, one set of my adjusted figures used the Gross Domestic Product (GDP) price index. Another used the monetary expression of labor-time (MELT) to remove the effect of inflation in what Marx called the "monetary expression of value."[5] One aspect of my inflation-adjustment procedure consisted of "deflating" (dividing) the net investment of a particular year by the GDP price index or MELT of the same year. Husson argues that this was an "error," and that it led to "systematic[ally] biased" estimates of the inflation-adjusted rates of profit. Consequently, my inflation-adjusted rates of profit increasingly fall, as time proceeds, in relationship to rates of profit that are adjusted for inflation in a correct manner.

Net investment is the difference between gross investment and depreciation. The depreciation figures I used measured depreciation at historical cost. Thus, when I deflated a particular year's net investment by the GDP price index or MELT of that year, I was in effect deflating both gross investment and historical-cost depreciation in this manner. However, Husson argues, it is incorrect to deflate the current year's historical-cost depreciation by the current year's GDP price index or MELT, since the means of production that are depreciating were bought in earlier years at different prices, not at the prices of the current year.

The correct procedure, he says, is to deflate depreciation by "something like" the price index or MELT of the year in which means of production of average age were purchased. I suppose that Husson writes "something like" because the ideal procedure he has in mind is to deflate the depreciation figure for each means of production by the price index or MELT of the year in which that means of production was purchased. The procedure that Husson recommends should yield "something like" the same result. Yet it is unclear how close the approximation would be, especially because the U.S. government's depreciation estimates are not straight-line, and because different years' contributions to total depreciation are unequal.

Consequently, I have chosen to implement the spirit of Husson's proposal in a slightly different way. His essential point is that expenses incurred in any year should be deflated by the price index (or MELT) of the same year. The estimates that I will present fulfill this requirement by using current-cost depreciation figures rather than the historical-cost depreciation figures I used originally.

Since current-cost depreciation figures use *current* prices to measure the depreciation of means of production purchased in the past, and this procedure deflates them by the *current* GDP price

[4] For my view of the matter, see the Technical Appendix at the end of this paper.
[5] The MELT is the amount of value, measured in money terms, that is produced per unit of labor-time, for instance $70 per labor-hour.

index or MELT, it overcomes Husson's objection to my earlier deflation procedure. Use of the current-cost depreciation figures yields estimates that are "something like" the ones that would result by deflating each historical-cost depreciation figure by the price index or MELT of the year in which the associated investment was made. Indeed, if the index of fixed asset prices were to change by the same percentage that the GDP price index or MELT changes, the results would be identical.

Figures 1 through 3 show how—and how little—trends in the deflated rates of profit between the trough year of 1982 and the present are affected by the change in the method that is used to deflate net investment flows. (These figures only show *trends*; Figure 4 shows the *levels* of the rates of profit presented in Figure 1.) The differences in rate-of-profit trends that result from the change in the deflation procedure were quite small throughout the whole period, and they narrowed considerably in the late 1990s and early 2000s. This shows that, contrary to what Husson claims, my original inflation-adjustment procedure does *not* produce estimates of advanced capital that increasingly rise over time in relationship to the estimates of advanced capital that result from the kind of inflation-adjustment procedure he proposes.

In the study that Husson criticizes (Kliman 2009), I compared rates of profit between different trough years in order to ascertain whether a *sustainable* rebound in profitability occurred prior to the current crisis. (There was clearly a sharp rise in rates of profit in the mid-1990s, and again in the years preceding the latest crisis, but both proved to be short-lived.) I found that

> U.S. corporations' rate of profit began to fall about a decade after the end of World War II and the falling trend has persisted until the present time. Some measures of the rate of profit leveled off or increased very slightly after the early 1980s, while others have continued to decline. None indicates that a genuine, sustainable rebound in profitability took place. [Kliman 2009, part X]

Table 1 shows that this conclusion remains true even when net investment is deflated in a manner like that suggested by Husson.

The estimates of changes in profitability between the 1982 trough and the latest trough are scarcely altered by the changed method of deflating net investment flows. Under *both* methods:

Legend to Figures 1–4

current-cost rate of profit (not deflated)

historical-cost rate of profit (not deflated)

numerator and denominator deflated by	depreciation measured at	Line
GDP Price Index	current cost	
GDP Price Index	historical cost	
Monetary Expression of Labor-Time	current cost	
Monetary Expression of Labor-Time	historical cost	

Property Income = Gross Value Added – Compensation of Employees – Depreciation

Figure 1. Property Income (with depreciation at current cost), as % of Cost of Fixed Assets, U.S. Corporations (1982 = 100%)

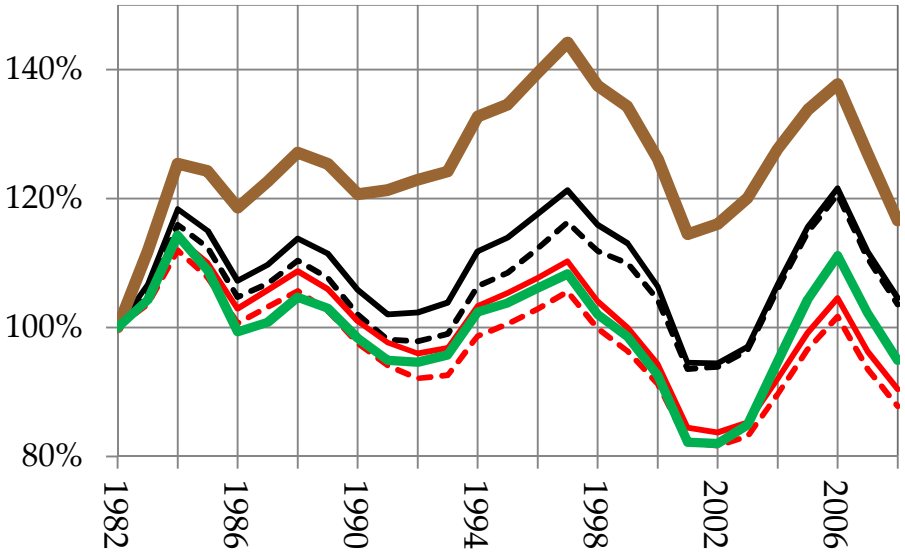


Figure 2. Property Income (with depreciation at historical cost), as % of Cost of Fixed Assets, U.S. Corporations (1982 = 100%)

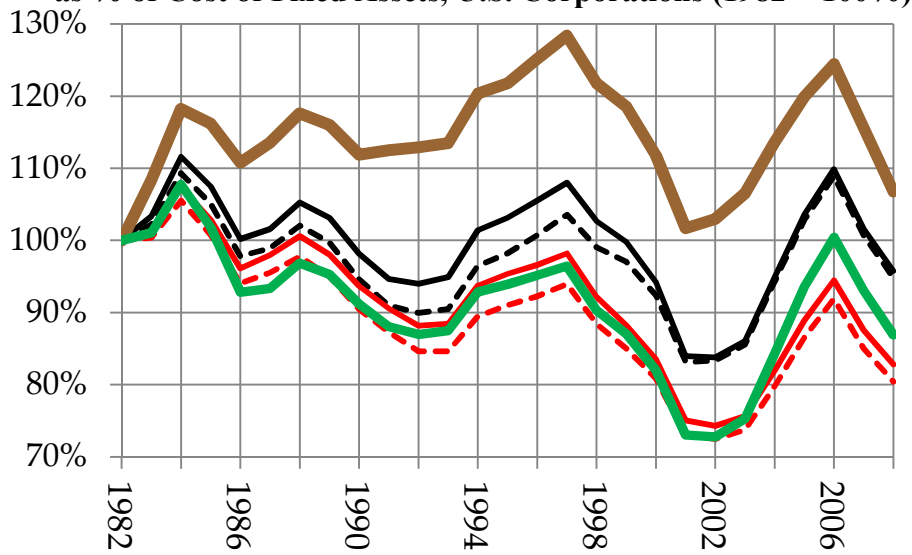


Figure 3. Profits Before Tax, as % of Cost of Fixed Assets, U.S. Corporations (1982 = 100%)

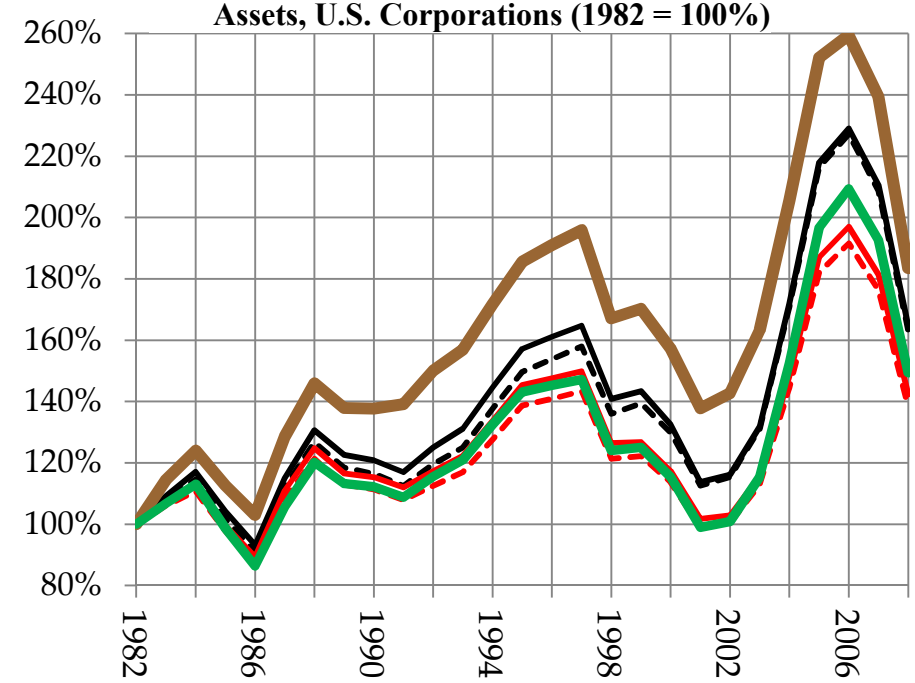


Figure 4. Property Income (with depreciation at current cost), as % of Cost of Fixed Assets, U.S. Corporations

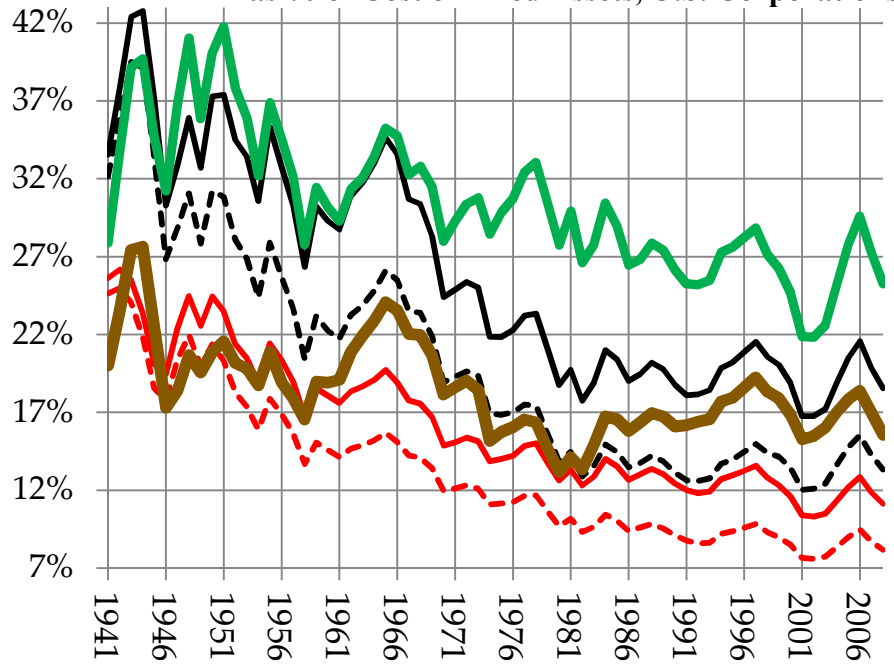


Table 1. Changes in Rates of Profit between 1982 Trough and Latest (2001 or 2002) Trough

denominator		numerator		
deflator *	depreciation	Property Income − depreciation at historical cost	Property Income − depreciation at current cost	Profits Before Tax
GDP PI	historical cost	− 2.6 pts; −16.9%	− 0.8 pts; − 6.5%	+ 0.7 pts; +12.6%
GDP PI	current cost	− 3.4 pts; −16.2%	− 1.0 pts; − 5.6%	+ 1.1 pts; +13.8%
MELT	historical cost	− 3.0 pts; −27.6%	− 1.7 pts; −18.4%	− 0.0 pts; − 1.1%
MELT	current cost	− 3.7 pts; −25.7%	− 2.0 pts; −16.3%	+ 0.1 pts; + 1.7%
none	historical cost	− 8.5 pts; −27.2%	− 4.8 pts; −18.0%	− 0.1 pts; − 1.1%
none	current cost	+ 0.3 pts; + 1.7%	+ 1.9 pts; +14.5%	+ 2.3 pts; + 37.8%

* GDP PI = gross domestic product price index; MELT = monetary expression of labor-time

- when property income (valued at either current-cost or historical-cost) serves as the measure of profit, all rates of profit adjusted for inflation, and the unadjusted historical-cost rate of profit, fall between 1982 and the latest trough,
- when before-tax profit serves as the measure of profit, the MELT-adjusted and unadjusted historical-cost rates of profit are basically unchanged, while rates of profit deflated by the GDP price index increase very modestly, by about one percentage point.

If, instead of comparing troughs, we consider trends during the period since 1982, the results can be summarized as follows. When property income serves as the measure of profit, the MELT-adjusted and unadjusted historical-cost rates of profit fall substantially, while rates of profit deflated by the GDP price index either fall modestly or stagnate. Again, this holds true under *both* methods of deflating net investment flows.

None of the above evidence lends support to Husson's (2008a) conclusion that "a fundamental tendency towards increasing the rate of exploitation was unleashed [in the early 1980s …] that has led to a continuous rise in the rate of profit."

But what about the trends in rates of profit in which before-tax profits serve as the measure of profit? In this case, as Figure 3 shows, all deflated rates of profit and the unadjusted historical-cost rate of profit did trend upward, though far less sharply than did the current-cost "rate of profit." Isn't this at least a wee bit of evidence that a "neoliberal phase" (Husson 2008a) of capitalism emerged in the early 1980s that succeeded in restoring profitability through increased exploitation of the working class?

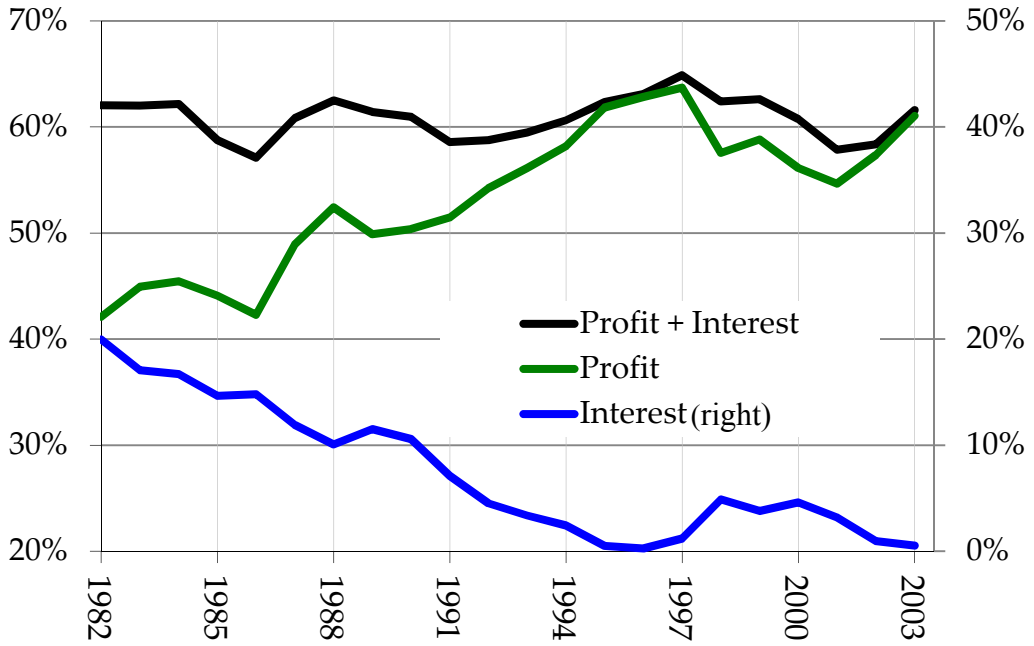
It is not. *Before-tax rates of profit of U.S. corporations did not trend upward since the early 1980s because of an increase in the rate of exploitation, but because of a long-term decline in interest rates, and thus a long-term decline in the interest expenses of these corporations as a share of the property income they generated.* Owing to this decline, the corporations were able to

keep as profit a much greater share of the surplus-value they generated, while the share of the surplus-value that they handed over to their creditors declined.

To understand this conclusion, we need to understand the relationship between what I call "property income" (gross value added minus depreciation and compensation of employees), before-tax profits, and corporate interest payments. Property income is a fairly close proxy for what Marx meant by surplus-value; it is basically the portion of the new value added in production that is not received by workers and other employees. Some property income is used to pay taxes on production and imports and to make transfer payments to individuals; some is used to make interest payments; and the remainder is before-tax profit.

Now, between 1982 and 2003, a very stable share of property income, a little more than 60% on average, remained after taxes on production and imports and transfer payments were paid (see Figure 5). But since interest payments became a smaller and smaller share of that remaining portion of property income as time went on, before-tax profits became a larger and larger share.

Figure 5. Before-Tax Profits and Net Interest (incl. "miscellaneous payments"), as % of Property Income, U.S. Domestic and Non-Domestic Corporations



Thus, the rise in before-tax rates of profit is not an indication that "neoliberalism" succeeded in restoring profitability by impoverishing the working class, nor an indication that it succeeded in reversing the decline in surplus-value per dollar of advanced capital. The evidence indicates that this decline was *not* reversed; property-income-based rates of profit stagnated or continued to decline (see Figures 1, 2, and 4). It was simply the case that corporations were able to keep a larger share of the relatively shrinking or stagnant pool of surplus-value for themselves as the share that they turned over to their creditors declined.

5. Why the Current-Cost "Rate of Profit" has Risen (Mis-measurement of Inflation)

Husson (2009a) defends the use of the current-cost "rate of profit" on the ground that it is an inflation-adjusted rate of profit. In Kliman (2009, part V, section D), I explained why it does not adjust for inflation properly. He has not responded to this critique, so I have nothing of a theoretical nature to add to what I have already said about the issue. Rather than repeat myself, in this section I examine the effect that the mis-measurement has on estimates of the trend in the rate of profit of U.S. corporations. It turns out that mis-measurement is responsible for almost all the rise in the ratio of property income to the current cost of fixed assets since 1980.

Husson (2009a) claims that "the principal function of profit is to fund accumulation." I do not understand why he writes this, given that it is so far off the mark. The share of profit that is used to "fund accumulation"—increase the stock of fixed assets—is actually quite small. During the period between 1989 and 2008, domestic and non-domestic U.S. corporations used 54% of their property income, on average, to pay taxes and make transfer payments, while 28% was paid out in interest and dividends. Only 15% of property income was used for net investment in fixed assets (in current-cost terms). And only 25% of before-tax profits were used for that purpose.

In light of these facts, it makes little sense to say that "real" profit (in the physicalist sense of the term "real") is the quantity of fixed assets—rather than the quantity of goods and services in general—that corporations can buy with their money profits. But this is exactly what the current-cost "rate of profit" implies. The current-cost rate is the ratio of money profit to the current-cost of fixed assets, and the current-cost of fixed assets can be decomposed into an index of the price of fixed assets times an index of the physical quantity (or "real stock") of fixed assets:

$$\begin{matrix}\text{current-cost}\\ \text{"rate of profit"}\end{matrix} = \left(\frac{\text{profit}}{\begin{matrix}\text{current cost}\\ \text{of fixed assets}\end{matrix}}\right) = \left(\frac{\text{profit}}{\left[\begin{matrix}\text{price of}\\ \text{fixed assets}\end{matrix}\right] \times \left[\begin{matrix}\text{physical quantity}\\ \text{of fixed assets}\end{matrix}\right]}\right)$$

If we now divide the numerator and denominator of the expression on the right-hand side by the index of the price of fixed assets, we obtain:

$$\begin{matrix}\text{current-cost}\\ \text{"rate of profit"}\end{matrix} = \left(\frac{\text{profit}/\left[\begin{matrix}\text{price of}\\ \text{fixed assets}\end{matrix}\right]}{\begin{matrix}\text{physical quantity}\\ \text{of fixed assets}\end{matrix}}\right)$$

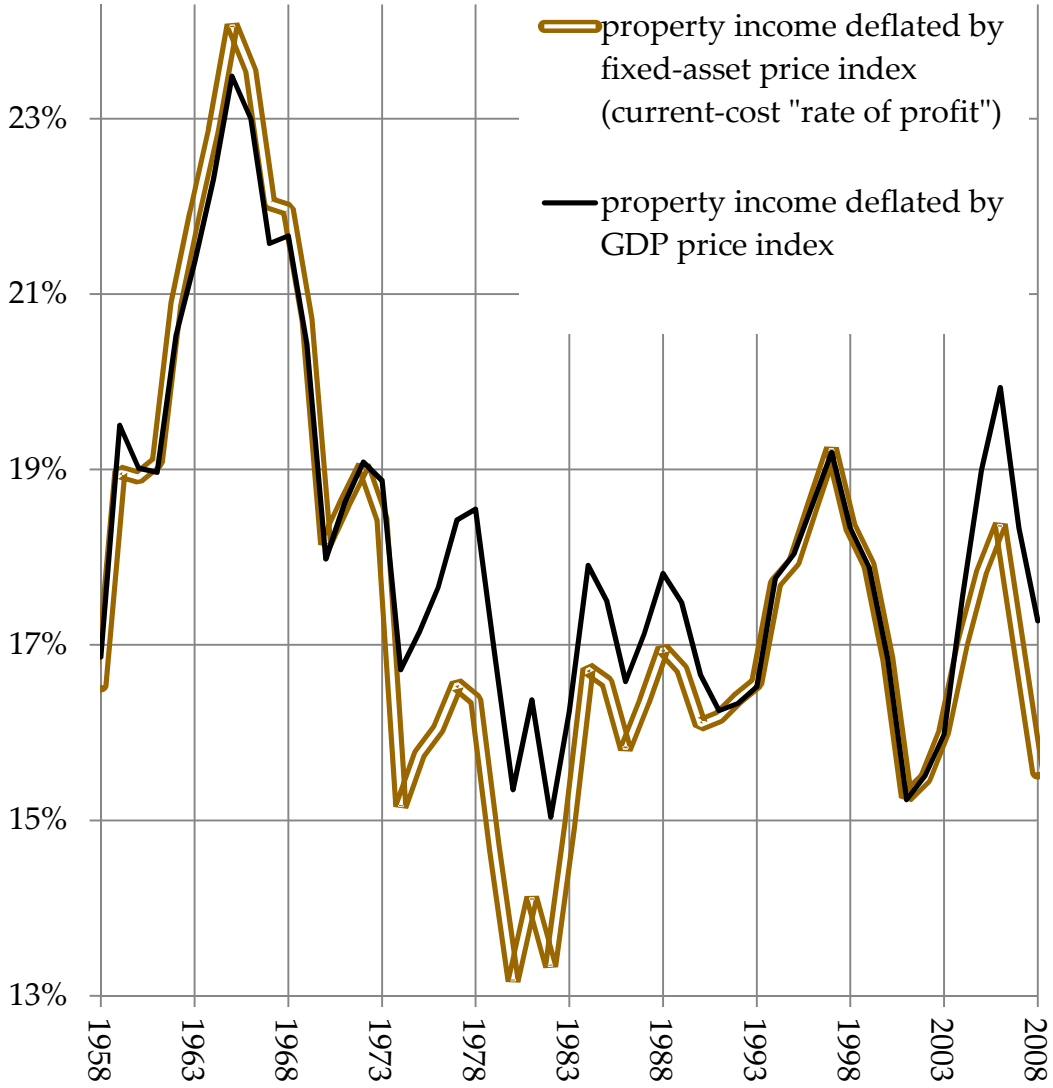
The measure of "real" profit in the numerator of this last expression, $\text{profit}/\left[\begin{matrix}\text{price of}\\ \text{fixed assets}\end{matrix}\right]$, is a measure of the quantity of fixed assets that can be bought with the profit.

But, again, since only a small share of profit is used to buy fixed assets, it makes much more sense to measure "real" profit as the quantity of *all* goods and services that can be bought with the profit. In other words, it makes much more sense to divide money profit by the GDP price index rather than by the index of the price of fixed assets. The alternative "real" (i.e., physicalist) rate of profit is thus:

$$\text{alternative "real" rate of profit} = \left(\frac{\text{profit} / \left[\frac{\text{GDP Price}}{\text{Index}} \right]}{\text{physical quantity of fixed assets}} \right)$$

When we make this one change—altering the computation of the current-cost "rate of profit" in no other respect—we eliminate most of the rise in this "rate of profit" since the early 1980s. As Figure 6 shows, these two measures have hardly differed throughout most of the last half-century. But between 1974 and 1980, fixed-asset prices rose much more sharply than did prices in general, and they remained elevated in relation to the general price level through 1991. This caused a temporary but sharp fall in the current-cost "rate of profit" in relationship to the alternative "real" rate.

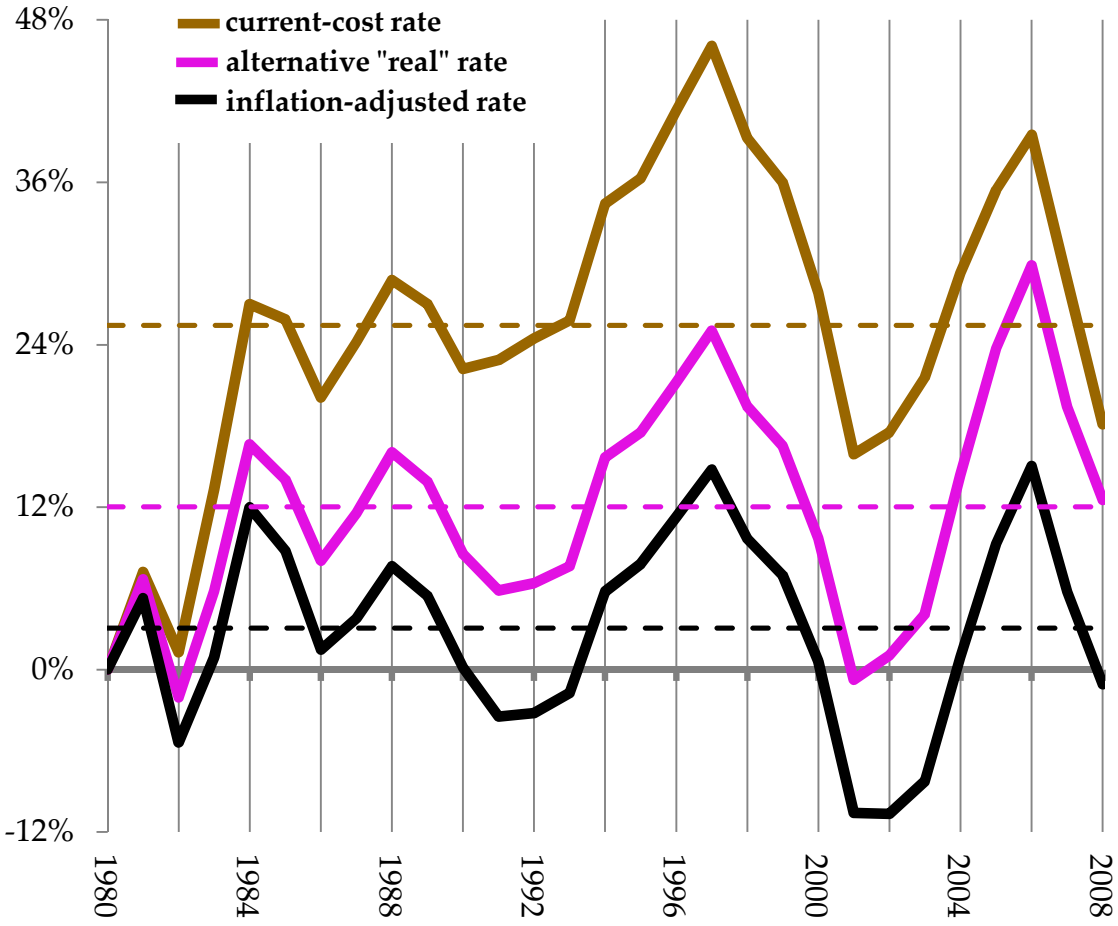
Figure 6. "Real" Property Income (with depreciation at current cost), as % of Physical Quantity of Fixed Assets, U.S. Corporations



Consequently, while the current-cost "rate of profit" rose by 15.9% (not percentage points) between the trough of 1980 and the latest trough-profit-rate year, 2001, the alternative "real" rate of profit fell by 0.8%. And during the 1980–2008 period as a whole, the current-cost rate was on average 25.4% greater than in 1980, while the alternative "real" rate was on average only 12.0% greater than in 1980. Thus, the majority of the rise in the current-cost rate since 1980 was produced by an exceptional increase in the relative price of fixed assets—not by "neoliberalism," and not by an increase in the degree of exploitation.

Actually, almost the entire rise in the current-cost rate is due to the exceptional increase in fixed-asset prices. The alternative "real" rate of profit eliminates only some of this effect. While it deflates profit by the general price level, it continues to deflate net investment by the prices of fixed assets, just as the current-cost "rate of profit" does. But if we deflate net investment as well as property income by the GDP price index, we obtain the inflation-adjusted rate of profit depicted in Figures 1 and 4. Its average level between 1980 and 2008 was just 3.1% greater than its level in 1980 (see Figure 7). Thus 88% (= [25.4% – 3.1%]/25.4%) of the increase in the current-cost rate is attributable to the temporary spike in fixed-asset prices relative to the general price level.

Figure 7. Property Income (with depreciation at current cost), as % of Cost of Fixed Assets, U.S. Corporations. (Percentage changes since 1980. Dotted lines are average values.)



6. The Rate of Profit and the Rate of Accumulation

Capitalism never fully recovered from the economic crises of the 1970s and early 1980s, certainly not in the manner in which it rebounded after the Great Depression and World War II. The worldwide growth rate of per capita GDP fell in half in the mid-1970s and has not since recovered. The growth rate of U.S. corporations' output (net value added) fell by one-half at the same time, and this caused the growth rate of corporate compensation of employees to fall in half. Neither of these growth rates has recovered, either.[6] And the levels of federal government, consumer, mortgage, and business debt have almost doubled as a percentage of U.S. GDP since the early 1980s.

Now, Husson's position on this matter is rather peculiar. He largely agrees with the above assessment. For instance, he has argued that the long-awaited expansionary phase of capitalism never arrived. Yet he eschews the most obvious—and, *prima facie,* the most plausible—explanation of the above phenomenon: the rate of profit fell and never rebounded, and this persistent fall produced a persistent fall in the rate of accumulation. As a dogged proponent of the current-cost "rate of profit," he is forced to take the position that "the rate of profit" recovered substantially during the same period. That leaves him with a serious problem, however. He has to somehow account for the extremely curious fact that nothing else—the rate of accumulation, GDP growth, compensation of employees, etc.—rebounded in response to the recovery in the "rate of profit."

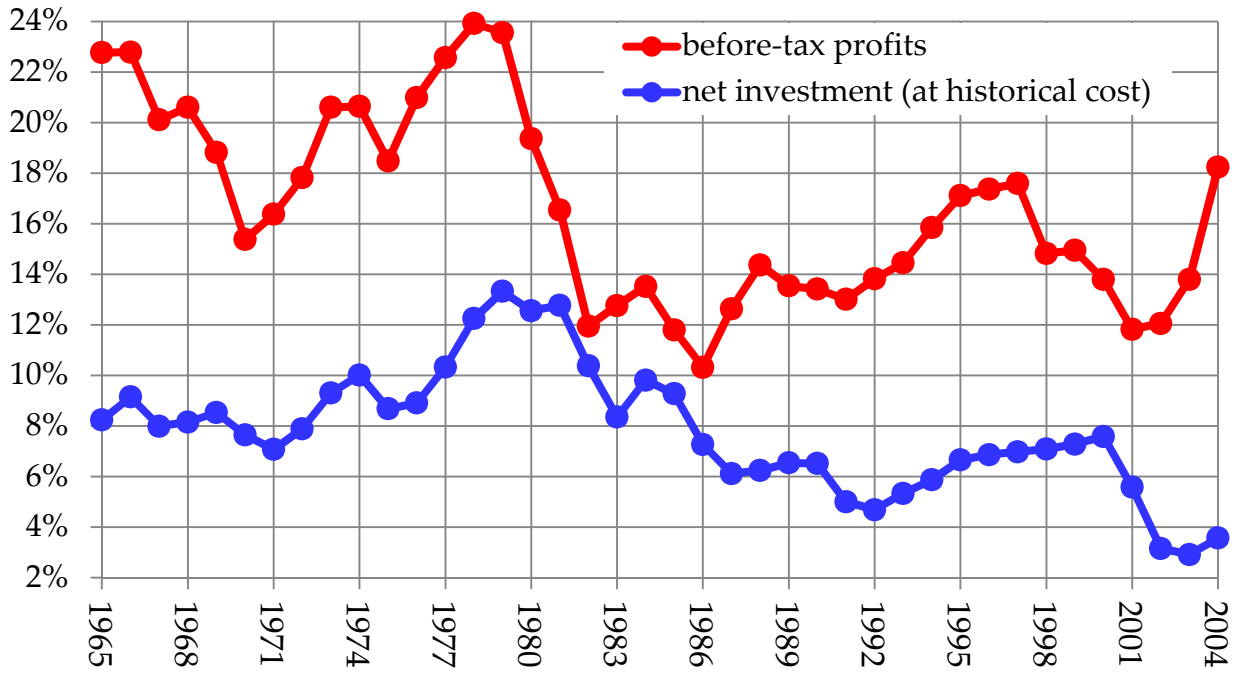
The most obvious—and, *prima facie,* the most plausible—way to account for this fact is that the current-cost "rate of profit" is just a figment of the simultaneist imagination. It is not something that capitalists try to maximize nor is it the rate of profit that regulates their investment behavior. But Husson will not go there. He instead imagines that a distinct "neoliberal" "regime of accumulation" emerged in the early 1980s (Husson 2008a). Supposedly there were massive profits that could have been used for productive investment. However, the rate of accumulation instead fell because this new "regime of accumulation" (shouldn't that be "regime of non-accumulation?) was one in which profits were diverted away from productive investment and into financial speculation. If this were true of an entire quarter-century of capitalism, as Husson contends, it would be extremely peculiar. As he acknowledges, such a disconnect between the rate of profit and the rate of accumulation is "more or less unprecedented in the history of capitalism" (Husson 2008a).

But it just isn't true. At least, it isn't true of the last quarter-century of capitalism in the U.S.. Figure 8 shows that the fall in the rate of accumulation (net investment at historical cost as a percentage of the historical cost of fixed assets) between 1978 and 2002 closely tracked the fall in the rate of profit (before-tax profits as a percentage of the historical cost of fixed assets) between 1978 and 2001. As the gaps between the two rates suggest, the share of before-tax profits that was devoted to net investment was on average *almost exactly the same* between 1987 and 2001 (43.5%) as it had been between 1966 and 1977 (43.6%).

The reason why this last result differs from Husson's is *not* that I am employing a historical-cost rate of profit while he employs a current-cost one. When net investment is valued at current cost,

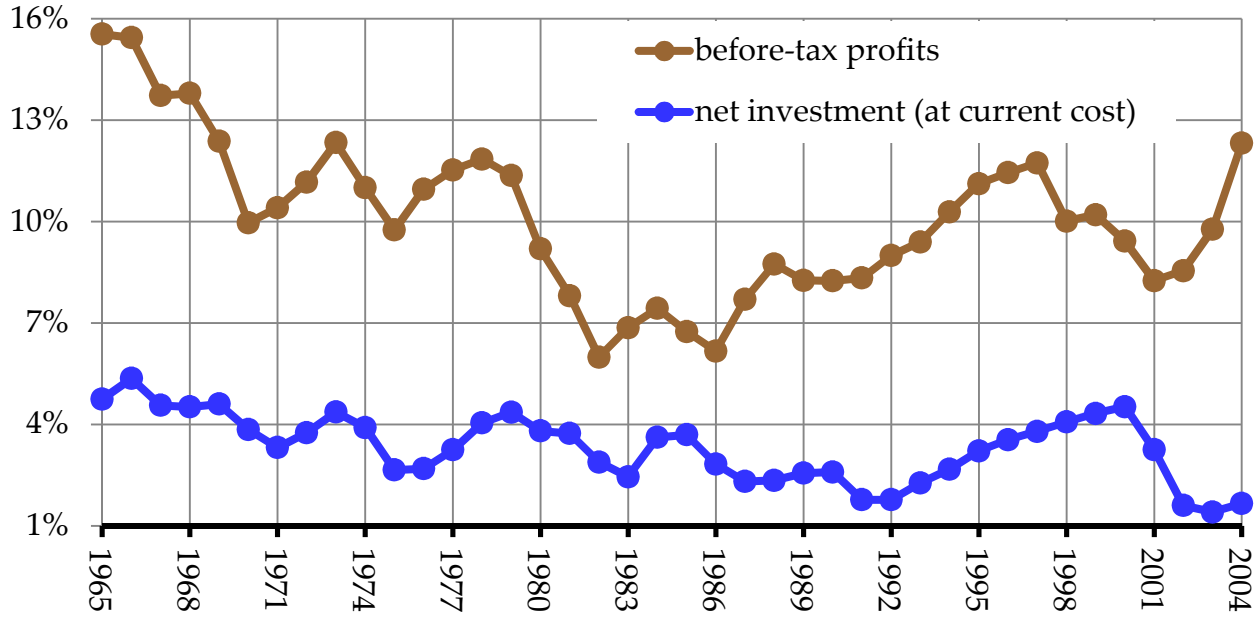
[6] All of the growth rates cited in this paragraph are adjusted for inflation.

Figure 8. Before-Tax Profits and Net Investment, as Percentages of Historical Cost of Fixed Assets, U.S. Corporations



the average shares of before-tax profits devoted to net investment are again very similar during the 1965–1977 and 1987–2001 periods, 32.6% and 31.6%, respectively. Consequently, as Figure 9 shows, the gaps between the rate of profit and the rate of accumulation are again quite similar.

Figure 9. Before-Tax Profits and Net Investment, as Percentages of Current Cost of Fixed Assets, U.S. Corporations



The actual reason why Husson finds a growing gap between the rates of profit and accumulation, while I do not, is rather that *his comparison of these rates begins only in 1980* (see Husson 2009a, Graphique 7A, "Taux de profit et taux d'accumulation: Etats-Unis 1980-2008").[7] As Figures 8 and 9 show, the gap between the rates of profit and accumulation has indeed risen since the early 1980s. But that is only because the gap that existed at that time was abnormally and unsustainably small. It has nothing to do with any distinctive and unprecedented neoliberal "regime of accumulation."

What happened is this: The rate of profit fell sharply beginning in 1980, while the decline in the rate of accumulation was at first slower and more modest. Consequently, net investment as a percentage of after-tax profits shot up to an average of 117% between 1980 and 1986. This means that U.S. corporations were investing 17% more of their after-tax profits than the after-tax profits they actually had! That situation clearly could not persist. So the gap between the rates of profit and accumulation that had existed earlier was gradually restored. But through 2001, at least, there was no long-term *widening* of the gap (see Kliman 2009, part VI for further discussion of this issue).[8]

7. Now You See It, Now You Don't: A Lesson in Simultaneist Magic

The current-cost "rate of profit" revalues the capital that was advanced in the past at current prices. Thus, if current prices are lower than prices in the past, the revaluation causes a portion of the advanced capital to magically disappear. And this, in turn, produces a spurious rise in the rate of profit. The revaluation also produces a spurious rise in the rate of profit even when it is only the rate of inflation, rather than the absolute level of prices, that falls (see Kliman 2007, pp. 129–32).

The conjuring away of advanced capital is this manner is the secret behind Okishio's (1961) theorem, which supposedly disproved Marx's law of the tendential fall in the rate of profit, but which actually proved nothing of the sort. And the same bit of legerdemain lies behind the conclusion that "the rate of profit" has magically risen over the last three decades, even as the economy has slowly gone down the tubes!

One way to understand what "magical disappearance of advanced capital" means is as follows. The difference between the amount of money in your savings account at the start of the year and the end of the year is the additional money you deposited minus the money you withdrew. In exactly the same way, the difference between a company's advanced capital at the start of the

[7] In the past, his graph depicting a growing gap between the rate of profit and the rate of accumulation began with data from 1961 (see e.g. Husson 2008b, p. 3, Figure 2). He has recently acknowledged that, in this graph and elsewhere, his estimate of the rise in the rate of profit was hugely inflated (Husson 2009b). This would explain why the earlier graph has been replaced by a new one, but not why the revised version suddenly truncates the period under study. What *is* the explanation for this? In the section of Husson (2009a) entitled "La parabole des cerises et le creux Internet," he seems to agree that it is generally improper to truncate the period under study.

[8] Owing to the very sharp increase in before-tax profits in the middle of the last decade, net investment as a percentage of before-tax profits fell markedly. It has since risen, although the severe financial crisis and recession have tended to reduce the magnitude of the rise. It is too early to tell whether a long-term change has taken place in the relationship between net investment and before-tax profits.

year and the end of the year is the additional money it invested minus depreciation charges. But this is not what happens when capital is valued at current cost:

> for historical-cost estimates, the conceptual relationships among investment, net stocks, and depreciation are simple: the change in the net stock [i.e., the advanced capital—AJK] from the end of one year to the next equals investment less depreciation …. [This] relationship does not hold for current-cost estimates because end-of-year price indexes are used to *revalue* constant-dollar estimates of net stocks to the prices of each year, while average annual price indexes are used to *revalue* the estimates of depreciation. [U.S. Department of Commerce, Bureau of Economic Analysis, 2003, p. M-10, emphases added]

As far as I can tell, Husson (2010) does not understand this simple point. He seems to argue that numerical examples that Alan Freeman and I have constructed, in order to show how simultaneous valuation makes advanced capital magically disappear, are fatally flawed because they supposedly forget that, as fixed capital depreciates, a portion of its value is transferred to the products produced by means of it.

This has nothing at all to do with the matter at hand. Let me try to illustrate the point once more, this time with a not-so-"particularly absurd" example. At the start of 1929, the net stock of U.S. corporations' fixed assets, valued at current cost, was $104.5 billion. During the years 1929 through 1932, the corporations' gross investment in fixed assets totaled $20.4 billion, while the depreciation of their fixed assets—valued at *current cost*—totaled $18.3 billion. So, did the current cost of their fixed assets at the end of 1932 equal $104.5 billion + $20.4 billion – $18.3 billion = $106.6 billion? No, it was only $82.3 billion. Simultaneist magic has caused a whopping $24.3 billion of advanced capital to vanish mysteriously.[9] Now you see it, now you don't.

8. What is at Stake Politically?

Husson (2009a) concludes his critique of my work by quoting, and taking issue with, my response to a question during the discussion period that followed a talk I recently gave on the latest economic crisis:[10]

> The first question I was asked was regarding my criticisms of the claims made by Marxist economists such as Gérard Duménil and Dominique Lévy, Fred Moseley, and Michel Husson who have said that the rate of profit, especially of corporations in the US, ha[s] almost completely recovered from the low point in the early 1980s. It is an extremely important issue because it affects how we view the character of the present crisis. *If there is a huge crisis in the midst of an almost complete recovery of the rate of profit, that suggests that it is purely a financial crisis that we are experiencing rather than a crisis of capitalist production as such. And it suggests therefore that what needs to be fixed is the financial system: we need regulation, we need, maybe, nationalization of banks, but a change in the character of the socio-economic system is not on the*

[9] This is not the U.S. government's fault. And there is nothing wrong with its current-cost measures as such. They simply should not be used to measure increases and decreases in the amount of advanced capital over time. This is an example of the famous "rubber ruler" problem. Nothing that itself increases or decreases over time (such as current prices and the lengths of rubber rulers) can properly measure the increases and decreases in other things over time.

[10] The event took place on December 15, 2009 at the Instituto del Pensamiento Socialista Karl Marx in Buenos Aires. The web TV site of the Partido de los Trabajadores Socialistas, http://www.tvpts.tv, carries the talk ("La Crisis Económica, sus Raíces y Perspectivas") and the discussion period following it.

> *agenda*. So a lot of people are moving into the camp of Keynesianism and calling for fights against financial capitalism rather than against capitalism. [emphasis added]

In response to the sentences I have italicized, Husson objects that each link of my syllogism is false. If the rate of profit is high, it is still possible that the crisis is not only a financial one, and even if the crisis is only a financial one, it is still possible that it calls into question the underlying logic of the system. But the term "syllogism" is his, not mine. When one is giving an impromptu verbal response to a question, it is not the time to try to formulate a watertight syllogism. I therefore said "that suggests" and "it suggests," not "that implies," or "it follows inevitably that," or some similar expression that announces the conclusion of a syllogism.

Yet there is indeed a precise logical connection that can be drawn between the notions that profitability has rebounded, that the latest economic crisis has an *irreducibly* financial character, and that changes to the financial system could in principle prevent such crises in the future. That connection was spelled out admirably by Chris Harman (2009, p. 299, emphasis added) a few months before his tragic and untimely death last fall:

> Those radical economists who put the stress on financialisation in creating the crisis [… characteristically] claim that profit rates had recovered in the 1980s and 1990s sufficiently to have brought about a revival of productive investment were it not for the power of financial interests. Such was the argument of the French Marxist Michel Husson, when he claimed in 1999 that there were 'high levels of profitability", and [Engelbert] Stockhammer and [Gérard] Duménil were saying much the same thing in the summer and autumn of 2008. *If they were right, the crises that broke out in 2001 and on a much bigger scale in 2007–8 would indeed have had causes very different to previous ones, including the inter-war slump* [i.e., the Great Depression—AJK]*, and greater control by the existing state over the behaviour of the financial sector would in the 21st century be sufficient to stop such crises.* In accordance with such an approach, Duménil and [Dominique] Lévy described the "Keynesian view" as "very sensible" and looked to "social alliances" to "stop the neoliberal offensive and put to work alternative policies—a different way of managing the crisis."

If the sentence of Harman's I have italicized still does not qualify as a fully-articulated syllogism, it comes damned close.

Unfortunately, Husson chooses not to respond to the substantive issues at stake here. Instead, he changes the subject. The error upon which my "false syllogism" rests, he writes, is my inability to understand that "capitalism may be in *crisis* even as it enjoys a high rate of profit. … [T]he *crisis* is that capitalism is incapable of responding, and indeed refuses to respond, in a rational manner to the needs of humankind, whether these be social needs or the struggle against climate change" (emphases added).

Husson's use of the word "crisis" here is a bad pun. My talk—entitled "La Crisis Económica, sus Raíces y Perspectivas"—was wholly about the economic crisis, Thus, when I used the word "crisis" in my "syllogism," it was the economic crisis to which I was referring. I do not mean to suggest that social needs and climate change are "non-economic" matters. My point is rather that *economic crisis* is a technical term that has long had a specific and precise meaning: "A situation in which the economy of a country experiences a sudden downturn brought on by a financial crisis" (http://www.businessdictionary.com/definition/ economic-crisis.html). So when Husson answers me by employing the word "crisis" in a different sense, he is just changing the subject.

In other words, the question is not whether capitalism is experiencing *some* sort of crisis. Nor is the question whether there is *some* justification for fighting against capitalism. Rather, the questions that are at issue—and in need of a full debate—are these:

- Is the latest *economic crisis* a crisis of a specific *form* of capitalism, rather than a crisis of capitalism itself, such that a change in the form of the system can in principle prevent the recurrence of *economic crises* of the same sort?
- Has this *economic crisis* put a change in the character of the socio-economic system on the agenda, in the sense that, in order to prevent the recurrence of *economic crises* of the same sort, capitalism itself must be transcended?

My answer to the first question is "no" and my answer to the second one is "yes."

To the best of my knowledge, Husson has not explicitly answered these questions. But he has characterized the latest economic crisis as one that is "shaking the foundations of *neo-liberal* capitalism," not "shaking the foundations of capitalism" *sans phrase*. He has written that "[t]he crisis is a glaring confirmation of the criticisms addressed to *financialised capitalism*," not "criticisms addressed to capitalism" *sans phrase.* In the same piece, he wrote that "we have to take strength from the rout of the advocates of neo-liberalism" but he did not also warn us of the dangers we face now that the crisis has given new life to Keynesianism, social democracy, and "leftist" visions of statist capitalism.[11]

Such statements seem to suggest that Husson's answer to the first question is "yes" and his answer to the second question is "no." If that is not the case, it would be helpful if he would clarify his views.

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[11] The quotations from Husson in this paragraph are from the first paragraph, and the first paragraph of the final section, of Husson (2008b). Emphases are mine.

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Data Sources

Note: **NIPA tables** = National Income and Product Accounts tables. **FA tables** = Fixed Asset tables. Both are published by the Bureau of Economic Analysis, U.S. Department of Commerce, www.bea.gov.

p. 5, last full paragraph. **Outstanding corporate bond-market debt**, Securities Industry and Financial Markets Association, http://www.sifma.org/uploadedFiles/Research/Statistics/ SIFMA_USBondMarketOutstanding.pdf . **Net value added of domestic corporations**, NIPA Table 1.14, line 3. **Historical cost of fixed assets**, FA table 6.3, line 2.

Figures 1–4 and Table 1. **Current cost of fixed assets**, FA table 6.1, line 2. **Historical cost of fixed assets**, FA table 6.3, line 2. **Profits Before Tax**, NIPA tables 6.17 B–D, line 1. **Property income** is **gross value added of domestic corporations** (NIPA table 1.14, line 1), minus **domestic corporations' compensation of employees** (NIPA table 1.14, line 4), minus depreciation (**current-cost depreciation**, FA table 6.4, line 2; **historical-cost depreciation**, FA table 6.6, line 2). **GDP price index**, NIPA table 1.1.4, line 1. **MELT**: approximated as **GDP** (NIPA table 1.1.5, line 1) divided by **employment** ("household survey" figures, available from the Bureau of the Census, U.S. Department of Commerce, at www.census.gov/statab/ hist/HS-29.pdf and the Bureau of Labor Statistics, U.S. Department of Labor, at www.bls.gov).

Figure 5. **Profits Before Tax,** NIPA tables 6.17 B–D, line 1. **Net interest and miscellaneous payments** (of domestic + nondomestic corporations), NIPA table 1.13, line 9 plus line 63. **Property income** (of domestic + nondomestic corporations) is the sum of **Profits Before Tax, net interest and miscellaneous payments,** and **transfer payments plus taxes on production and imports, minus subsidies** (NIPA table 1.13, line 9).

p. 12, second paragraph. See note on Figure 5 for sources of data on **Profits Before Tax, property income, net interest and miscellaneous payments**, and **transfer payments plus taxes on production and imports, minus subsidies.** The taxes figure referred to in the paragraph also includes **taxes on corporate income**, NIPA table 1.14, line 12. **Dividends** (NIPA table 1.14, line 4) are net dividends.

Figure 6. **Property income**: see note on Figures 1–4 and Table 1. **Physical quantity of fixed assets**, FA table 6.2, line 2. The **fixed-asset price index** is the (rescaled) ratio of the **current cost of fixed assets** (FA table 6.1, line 2) to the index of the physical quantity of fixed assets. **GDP price index,** NIPA table 1.1.4, line 1.

Figure 7. This figure shows rates used in Figures 1, 4, and 6.

p. 15, first paragraph. **Per capita GDP** data are from Angus Maddison's **"**Statistics on World Population, GDP and Per Capita GDP, 1-2006 AD," available at www.ggdc.net/maddison. **Net value added** of domestic corprorations is **gross value added of domestic corporations** (NIPA table 1.14, line 1) minus **historical-cost depreciation** (FA table 6.6, line 2). Domestic corporations' **compensation of employees** , NIPA table 1.14, line 4. I deflated net value added and compensation by the Consumer Price Index for all urban consumers (CPI-U), available from the Bureau of Labor Statistics of the U.S. department of labor at ftp://ftp.bls.gov/pub/special. requests/cpi/ cpiai.txt. **Debt of domestic nonfinancial sectors**, *Flow of Funds Accounts of the United States*, series LA384104005.A, available from the Board of Governors of the Federal Reserve System at www.federalreserve.gov/releases/z1. **GDP**, NIPA table 1.1.5, line 1.

Figure 8. **Historical cost of fixed assets**, FA table 6.3, line 2. **Profits Before Tax**, NIPA tables 6.17 B–D, line 1. **Net investment at historical cost** is **investment** (FA table 6.7, line 2) minus **historical-cost depreciation** (FA table 6.6, line 2).

Figure 9. **Current cost of fixed assets**, FA table 6.1, line 2. **Net investment at current cost** is **investment** (FA table 6.4, line 2) minus **current-cost depreciation** (FA table 6.4, line 2).

p. 17, second paragraph. **Net investment at historical cost**: see note on Figure 8. **Profits after tax**, NIPA tables 6.19 B–D, line 1.

p. 18, second full paragraph. **Current cost of fixed assets**, FA table 6.1, line 2. **Investment**, FA table 6.4, line 2. Depreciation at **current cost,** FA table 6.4, line 2.

Technical Appendix on Depreciation and Advanced Capital

I do not agree that my original deflation procedure, criticized by Husson, was incorrect. Historical-cost depreciation figures are widely accepted among businesses and governments, including the U.S. government, as estimates of the amount of advanced capital that businesses have recovered (by means of sales of products, charges against profits, etc.). The concept underlying my procedure is that the inflation-adjusted amounts of money that businesses recovered in two different years are equal if and only if these amounts of money enabled them to purchase equal amounts of goods and services. This is not the concept that Husson prefers—he prefers a concept according to which the inflation-adjusted amounts of money that were recovered are equal if and only if these amounts of money enabled the businesses to replace equal amounts of the fixed assets that they have used up or discarded—but that does not make the concept underlying my procedure "incorrect."

Indeed, I have no idea what it means to say that a concept is incorrect. I do not say, for instance, that the current-cost "rate of profit" is incorrect. I say that it is not a rate of profit in the usual sense of the term, and that its proponents should not be allowed to become the masters of words. I do think that Husson's concept is of doubtful *relevance* during periods of rapid technological transformation, such as that of the 1980s, when millions of businesses were *not replacing* their used-up typewriters but instead purchasing computers and other word-processing equipment.

The concept underlying the changed deflation procedure that I describe below is the same as my original one, except that current-cost depreciation figures are used to estimate the amount of advanced capital that businesses have recovered. Historical-cost depreciation figures imply that a business fully recovers, over the lifetime of an asset, an amount of money equal to the capital that was advanced in order to acquire it. Current-cost depreciation figures imply that the business recovers an amount of money equal to what an asset that has been used up or discarded due to obsolescence is currently worth.

Marx's concept is different from *both* of these. It is the same as the current-cost depreciation concept, except that he held that firms recover no money when an asset is discarded due to obsolescence (see Kliman 2009, part IX). That Marx had a kind of current-cost concept of *depreciation* does not imply that he had a current-cost concept of *advanced* capital; he did not.

If we assume for simplicity that no assets are discarded due to obsolescence, that there is no destruction of capital-value that results in charges against profits, and that capital is advanced only in order to acquire fixed assets, the difference between his concept of advanced capital and the current-cost concept of advanced capital is this. According to Marx, the change in the advanced capital between the end of one year and the end of the next is the additional capital advanced during the second year minus the current-cost depreciation that occurs during the second year. According to the current-cost concept of advanced capital, the change is the current cost, at the end of the second year, of the fixed assets in use at the end of the second year, minus the current cost, at the end of the first year, of the fixed assets in use at the end of the first year.

The two changes will be equal only if the cost of the assets (or some complexly-determined average cost of the assets) is unchanged throughout the second year. Otherwise, as discussed in Section 7 of the present paper, *current-cost valuation of advanced capital implies that change in the advanced capital does not equal the additional capital advanced minus current-cost depreciation*.