F.*E*.*D*. Vignette #20 --

The Historical Dialectic of the Capital-Relation --

Thorstein Veblen's Version of Marx's "Law of the Tendency of the Rate of Profit to Fall".

A Commentary on a Pregnant Passage from Veblen's *circa* 1904 *Theory of Business Enterprise*.

by Miguel Detonacciones

Author's Preface. The purpose of **F**.*E*.*D*. Vignette **#20** is to explore the dynamics of the global capitals-system via some observations reported by the famous economist Thorstein Veblen, *circa* **1904**.

A Note about the On-Line Availability of Definitions of F.E.D. Key Technical Terms. Definitions of ***Encyclopedia Dialectica*** technical terms, including of *E*.*D*. 'neologia', are available on-line via the following URLs --

http://www.dialectics.org/dialectics/Glossary.html

https://www.point-of-departure.org/Point-Of-Departure/ClarificationsArchive/ClarificationsArchive.htm

-- by clicking on the links associated with each such term, listed, in alphabetic order, on the web-pages linked-to above.

Links to definitions of the ***Encyclopedia Dialectica*** special terms most fundamental to this vignette are as follows --

capital
http://point-of-departure.org/Point-Of-Departure/ClarificationsArchive/Capital/Capital.htm

capitalism
http://point-of-departure.org/Point-Of-Departure/ClarificationsArchive/Capitalism/Capitalism.htm

Diachronic vs. ***Synchronic***
http://point-of-departure.org/Point-Of-Departure/ClarificationsArchive/Synchronic/Synchronic.htm

eventity
http://point-of-departure.org/Point-Of-Departure/ClarificationsArchive/Eventity/Eventity.htm

equitism
http://www.equitism.org/Equitism/Theory/PoliticalEconomicDemocracy/PoliticalEconomicDemocracy.htm

Historical or ***Diachronic Dialectics***
http://point-of-departure.org/Point-Of-Departure/ClarificationsArchive/HistoricalDialectics/HistoricalDialectics.htm

immanent
http://point-of-departure.org/Point-Of-Departure/ClarificationsArchive/Immanent/Immanent.htm

intra-duality
http://point-of-departure.org/Point-Of-Departure/ClarificationsArchive/IntraDuality/IntraDualityW.htm
http://point-of-departure.org/Point-Of-Departure/ClarificationsArchive/IntraDuality/IntraDualityWG.htm

«***physis***»
http://point-of-departure.org/Point-Of-Departure/ClarificationsArchive/Physis/Physis.htm

technodepreciation
http://point-of-departure.org/Point-Of-Departure/ClarificationsArchive/TechnoDepreciation/TechnoDepreciation.htm

-- and we plan to expand these definitions resources as the ***Encyclopedia Dialectica Dictionary*** ***Project*** unfolds.

Introduction. In **F**.***E***.***D***. ***Dialectics***, the driver of the immanent aspects of the ***historical dialectic*** of a given ***dialectical*** ‘‘‘***eventity***’’’ is held to be what **F**.***E***.***D***. names as the ‘***self-duality***’, or ‘***intra-duality***’, of that ‘‘‘***eventity***’’’ itself.

F.***E***.***D***. conceives such ‘***intra-dualities***’, generically, as a kind of ‘‘‘self-opposition’’’, or ‘‘‘internal antithesis’’’, that inheres in the innermost ‘***internity***’ of such an ‘‘‘***eventity***’’’, as an ineluctable aspect of its very essence -- of its thus inescapably ***dual*** essence -- and that energizes the immanent aspect of its development -- its ‘‘‘***self***-development’’’, via its «***causa immanens***», or «***causa sui***» -- in counterpoint with the forces impinging upon it from its ‘***externity***’, from its external environment, from other ‘‘‘***eventities***’’’ -- its «***causa transiens***». Together, in combination, «***causa immanens***» and «***causa transiens***» co-determine the ***total*** development, the full life-history, of the individual ‘‘‘***eventity***’’’.

The classic examples of such ‘***intra-duality***’ for **F**.***E***.***D***, in the context of pre-human physics -- of the pre-human and extra-human «***physis***» -- are those ‘hot, shining orbs’, the stars, the ‘stellar eventities’. Their immanent development is driven by the ‘intra-dueling’ of their self-gravitational self-***im***plosion and their thermonuclear fusion self-***ex***plosion, twin, self-generated -- internally-generated -- ‘self-forces’ that oppose one another at every point of the stellar body ‘internity’, as one core fusion fuel is exhausted, followed by resumed self-implosion, compressing and igniting the core fusion “ash” into a new -- the next -- core fusion fuel, until, typically, a stellar core of consisting of iron arises, terminating the very existence of the star as such in a combined core implosion and ‘exo-core’ explosion, enriching the interstellar medium with the dying star’s evolved, “metallic”, higher atomic species from which, eventually, ‘contra-stars’ -- “planets”, cold[er], ‘shine-less’ orbs -- are formed, in subsequent generations of stellar/planetary system-formation.

But the «***genos***» of ‘***intra-duality***’ manifests «***species***» and ***instances*** also within the domain of ‘human physics’ as well -- within the human-social epoch of cosmological ‘self-meta-evolution’.

A prime, and salient example of such a systemic ‘***intra-duality***’ for that epoch, is the primary ‘intra-duality’ of “the capital-relation” as the predominating “social relation of production” of modern society, i.e., of “capital-value”, and its “law of motion” -- the ‘‘‘law’’’ of its motion of “accumulation” [and of ‘‘‘dis-accumulation’’’] -- as uncovered by Karl Marx. For “the capital-relation” [Marx], the primary ‘***intra-duality***’ is the internal opposition, within the movement of the “total social capital” [Marx], between capital as “***self-expanding value***”, and capital as ‘***self-contracting value***’, which is such that both of these opposing processes are ineluctably self-caused, self-imposed, by capital, upon capital, as a result of the very nature of the capital ‘‘‘***eventity***’’’ itself.

Capital as “***self-expanding value***” [Marx] arises via the productive reinvestment of produced surplus-value -- e.g., in the form of profits of enterprise -- in the enterprise that produced that surplus-value, or in other productive enterprises -- thus expanding the capital-value of total social capital-assets.

Capital as “***self-contracting value***” [Seldon] arises via the competitive-survival-incentives that the capitals-system imposes on individual capitals in general -- on those individual “personifications” of the capital-relation, the capitalist -- to boost the [relative] surplus-value / profits that their enterprises produce, by inventing and/or purchasing and installing -- investing in -- new, better capital plant and equipment, capital plant and equipment which produces more units of output per unit time than do older vintages, or that costs less to purchase while delivering the same output rate, or that costs less to operate while delivering the same output rate, or which realizes some combination of such “better” features.

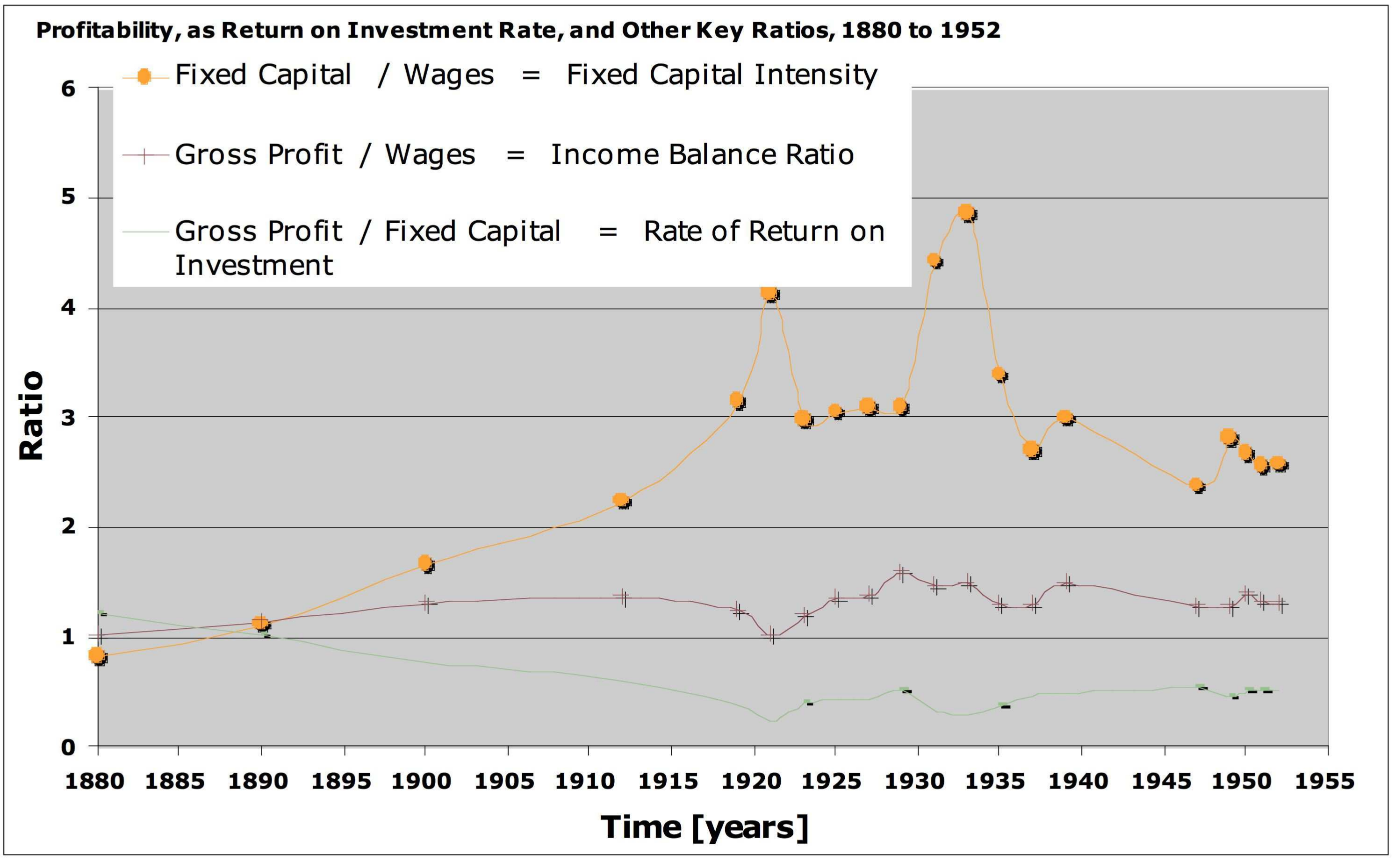
The consequence of the installation and operation of such “better” capital plant and equipment, by one enterprise, upon the other enterprises that compete with it, and which have not [yet] so-installed, is to lower their profit margins as a result of the underselling of their prices of output by the prices of the installing competitor-enterprise, or to force them to de-install and write-off their old capital plant and equipment, and to install the new, to remain price-competitive, causing a drop in their net profits, at least for the accounting-period(s) in which that write-off, and the initial expenses of purchasing and installing the new capital plant and equipment, occur, or some combination of the two, after which their rate of return on the new equipment itself should recover.

Over time, in the ongoing continuity of innovation, installation, and operation of progressively improving industrial capital plant and equipment -- the continuity of “***the growth of the social forces of production***” [Marx], i.e., of the rising rate of human societal self-reproduction, i.e., of the rising rate of ‘self-productivity’ of humanity/of ‘human socio-mass’ -- this process that we have named ‘the self-depreciation of capital’, and ‘technodepreciation’, drives a continual devaluation of accumulated capital-value, a ‘dis-accumulation of capital’, that is “netted out” against the equally ongoing self-expansion of capital value that is driven by the reinvestment of industrial, etc., profits, into industrial, etc., production.

During the initial phase of capitalist development, which we term its '''ascendance phase''', when the capital plant and equipment composition of total capital is still relatively low, reflecting lower productivity, so that the proportion of capital that is exposed to devaluation is also relatively low, the expansion of profits, and of capital, tends to outstrips their 'technodepreciation'-driven contraction.

The accumulating, growing proportion of capital plant and equipment in total capital, and the rising rate of occurrence of 'technodepreciating innovation', as a result of the capitalism-immanent incentives already cited, and reflecting a rising rate of rising social productivity, eventually generates a turning point, after which the technodepreciation-driven contraction of the total social capital value outstrips capital's co-occurring expansions. This second main phase of capitalist development is that which we name the "descendance phase" of capitalist development, which, to our data, appears to have occurred *circa* **1887**, at least for North American industrial capital [for more about this determination of timing, see http://capitalismsfundamentalflaw-wayforward.blogspot.com/2012/12/part-5.html].

U. S. Industrial Profitability History



Source: Joseph M. Gilman, The Falling Rate of Profit, Dennis Dobson [London: 1952], Appendix 3.

It is, psychohistorically, very telling, indeed, to see how these processes, and their consequences, are observed by Thorstein Veblen, writing *circa* **1904**, some **17** years after the silent turning point that we have ascertained, but at a time by which the profound consequences of that turn had become more widely -- and more "loudly" -- evident.

Extract and Commentary. Below we extract a particularly pregnant passage from Veblen's **1904** ***Theory of Business Enterprise***, adding our own commentary regarding his perceptions, and regarding the -- ***psychohistorically predictable*** -- ideological, policy, and institutional responses of the ruling plutocracy in light of Veblen's insights, and those of Marx, and those of others, into the inherent ***self***-destructive destiny of capitalism -- responses which we have characterized elsewhere under the headings of 'Anti-Marxian Marxianism', 'Capitalist Anti-Capitalism', and 'Human Anti-Humanism'.

Veblen predicted "chronic depression" as the new norm for the global capitalist economy, as a result of what we would term the turn from the '''ascendance phase''' to the '''descendance phase''' of the global capitals-system:

"*Chronic depression*, however, ***does not seem to belong***, ***as a consistent feature in the course of things***, ***in this nineteenth-century period***, prior to the ***eighties*** or the ***middle*** of the ***seventies***."

"***The usual course***, it is commonly held, was rather: ***inflation, crisis, transient depression, gradual advance to inflation, and so on over again***.**"**

[M.D.]: We interpret the passage above as noting a change in the dynamics of capitalism, reflecting what we would describe as the turn from the '''ascendance phase''' into the '''descendance phase''' of the global capitalist system.

Veblen continues --

"On the view of these phenomena here spoken for, an attempt at explaining this circuit may be made as follows:

A crisis, under this early nineteenth century situation, was an abrupt collapse of capitalized values, in which the capitalization was not only brought to the level of the earning-capacity which the investments would have shown in quiet times, but appreciably below that level.**"**

[M.D.]: In the passage above, Veblen defines what we would term "ascendance phase crisis" as a critical and precipitous 'self-contraction of capital-value', overshooting even the restoration of a normal ratio of net earnings to fixed-capital value -- a normal rate of *"return on* [capital plant and equipment] *investment"* -- that would register the accumulated 'technodepreciation' of capital plant and equipment, accumulated over the course of the "inflationary" period. The very non-registration, up until the crisis, of this 'technodepreciation', was, itself, a major hidden cause of that crisis -- of that eventual precipitous contraction/deflation of plant-and-equipment capital-value, and of other, related, capital-value, which ***is*** the crisis.

The crisis-induced drop in the value of the "return on investment" ratio's capital-plant-and-equipment-value denominator, relative to that ratio's net-earnings ["return"] numerator, has a post-crisis salutary effect. It raises the magnitude of that "profit-rate" ratio as a whole. That ratio had tended to fall as a whole, during the "non-crisis" phase. It tended to fall because productivity-increase-induced, competitive drops in prices, hence in the net earnings numerator of that ratio, owing to the productivity-increase-induced drop in unit costs of production, failed to be compensated by a commensurate drop in the valuation of the ratio's capital plant and equipment value denominator, such as would have registered the 'technodepreciation' of that capital plant and equipment value denominator, owing to the accumulated '*non*-crisis period' -- or '*pre*-crisis-period' -- productivity improvements.

Veblen then advances his argument as follows --

"The efficiency and the reach of the machine industry in the production of productive goods was not then so great as to lower the cost of their production rapidly enough to overtake the shrinkage in capitalization and so prevent the latter from rising again in response to the stimulus of a relatively high earning capacity.**"**

[M.D.]: Above, Veblen locates the key locus of 'technodepreciation' in what Marx termed "Department I", the department of "the production of means of production", of 'the machine production of production machinery', for what Marx termed "Department II", the department of the production of the means of population-sustaining consumption.

Veblen holds that, in what we term the 'ascendance phase' of the capitals-system, the *velocity of improvement* in the efficiency [and in the design] of the means of production, thus technodepreciating older vintages of those means of production, already installed, was insufficient to match and, indeed, to exceed the crisis-induced ***over***-shrinkage of the "capitalization" -- of the capital-valuation -- of the already-installed, 'technodepreciated' means of production. Thus, there remained a margin of that overshoot, leading to a higher net-earnings numerator value ***relative to*** that 'over-shrunk' capital plant and equipment denominator value, after the crisis-shock waned, sufficient to ***stimulate*** a rise in the valuation of that denominator, partially restoring the pre-crisis capital-valuation of that denominator, given the higher-than-normal earnings ***relative to*** that 'over-shrunk' denominator.
The latter rise tended to restore a normal/expected value of that net-earnings-divided-by-capitalization ratio as a whole, correcting the initial post-crisis 'high-side super-normal value' of that ratio, owing to the crisis-induced ***under***valuation of that ratio's denominator.

Veblen then summarizes these dynamics of 'ascendance phase' capitalist crisis as follows --

"The shock-effect of the liquidation passed off before the cheapening of the means of production had time to catch up with the shrinkage of capitalization due to the crisis, so that after the shock-effect had passed there still remained an appreciable undercapitalization as a sequel of the period of liquidation."

"Therefore there did not result a persistent unfavorable discrepancy between capitalization and earning capacity, with a consequent chronic depression,"

"On the other hand, the earning-capacity of the investments was high relatively to their reduced capitalization after the crisis."

"Actual earning-capacity exceeded nominal earning-capacity of industrial plants by so appreciable a margin as to encourage a bold competitive advance and a sanguine financiering on the part of the various business men, so soon as the shock of liquidation had passed and business had again fallen into settled channels.**"**

[M.D.]: Veblen then sets forth his view of the causes -- and of the consequences -- of the then-recent, "permanent" change in those dynamics of '''ascendance phase''' crisis, that characterize what we term the pre-**1913**, early '''descendance phase''' '*neo*-dynamics' of capitalist crisis --

*"**Since the** [M.D.: eighteen-]**seventies, as an approximate date and as applying particularly to America and in a less degree to Great Britain, the course of affairs in business has apparently taken a permanent change as regards crises and depressions**."*[M.D.: ■ The '***transition from the ascendance phase to the descendance phase of the global capitals-system***'. ■].

"During this recent period, and with increasing persistency, chronic depression has been the rule rather than the exception in business."

"Seasons of easy times, "ordinary prosperity", during this period are pretty uniformly traceable to specific causes extraneous to the process of industrial business proper."

"In one case, the early [M.D.: eighteen-]nineties, it seems to have been a peculiar crop situation, and in the most notable case of a speculative inflation, the one now (1904) apparently drawing to a close, it was the Spanish-American War, coupled with the expenditures for stores, munitions, and services incident to placing the country on a war footing, that lifted the depression and brought prosperity to the business community."

"If the outside stimulus from which the present prosperity takes its impulse be continued at an adequate pitch, the season of prosperity may be prolonged; otherwise there seems little reason to expect any other outcome than a more or less abrupt and searching liquidation."

" ...It was said above that since the [M.D.: eighteen-]seventies the ordinary course of affairs in business, when undisturbed by transient circumstances extraneous to the industrial system proper, has been chronic depression. The fact of such prevalent depression will probably not be denied by any student of the situation during this period, so far as regards America and, in a degree, England ..."

"The explanation of this persistent business depression, in those countries where it has prevailed, is, on the view here spoken for, quite simple."

"By an uncertain date toward the close of the [M.D.: eighteen-]seventies ***the advancing efficiency and articulation of the processes of the machine industry reached such a pitch*** that the [M.D.: ***fall*** in the] cost of production of productive goods [M.D.: i.e., of capital plant and capital equipment, functioning as "means of production "] has since then persistently outstripped such [M.D.: ***downward***] readjustment of capitalization as has from time to time been made [M.D.: e.g., due to crises].***"***

[M.D.]: Thus, it is the increase, past a certain critical point, in the *"**pitch**"* -- the ***acceleration*** -- of the rate of improvement of the overall productivity of the means of production, for Veblen, that explains this change, which we term the turn, from '''ascendance phase''', self-overcoming ***a***periodic economic crises, to '''descendance phase''', self-perpetuating, chronic depression-crises -- change in the crisis-dynamics of capitalism.
This change, per Veblen, manifests also as a "persistent decline" in [the rate of] "profits" [in the value of profit returns ***divided by*** the value of the "industrial apparatus" used in producing those profits] --

"The ***persistent decline in profits***, due to the ***relative*** overproduction of industrial apparatus, has not permitted a consistent speculative expansion, of the kind which abounds in the earlier half of the nineteenth century, to get under way."

"When a speculative movement has been set up by extraneous stimuli, during this late period, ***the inherent and relatively rapid decline in earning-capacity on the part of older investments*** has brought speculative inflation to book before it has reached such dimensions as would bring on a violent crisis.

"And ***when a crisis of some appreciable severity has come and has lowered the capitalization***, the persistent efficiency and facile balance of processes in the modern machine industry ***has overtaken the decline in capitalization without allowing time for recovery and subsequent boom***."

"***The cheapening of capital goods*** has overtaken the ***lowered capitalization of investments*** before the shock effect of the liquidation has warn off."

"***Hence depression is normal to the industrial situation under the consummate regime of the machine, so long as competition is unchecked and no*** *deus ex machina* ***interposes*****."**

[Thorstein Veblen, ***The Theory of Business Enterprise***, Charles Scribner's Sons [New York: **1904**], pp. **248**-**255**, ***emphases added***].

The questions which should leap to mind, in the aftermath of reading this *circa* **1904** description of the '''law''' of a 'technodepreciation-induced' fall in the rate of profit on industrial capital, since a '''turning point''' after the **1870**s in the U.S., and, in lesser degree, also in the U.K., leading to a condition of "chronic depression", of "persistent business depression", include the following --

1. **¿**What was the capitalist class moved to enact -- in terms of new economic policy, new "popular" ideologies, and new political-economic institutions -- in response to the prospect of '''permanent depression''', and the specter of a popular search for alternatives to capitalism -- for alternatives to the rule of that ruling class -- leading to the overthrow of the power and the "perks" of that ruling class***?***

2. **¿**Did the *circa* **1913** imposition in the U.S., by that ruling class, of the Federal Reserve System, of the Federal Income Tax, and of World War I, serve to mitigate the trend to "chronic depression" that Veblen observed, and essayed to explain, and to further mutate the dynamics of the global capitals-system itself, leading to the principle historical phenomena that humanity has experienced since World War I***?***

Perhaps key clues to the answers to these questions were captured in the paper that we have cited here before [Geert Reuten, *"**The Incompatibility of Prolonged Technical Change and Competition**: Concurrence and the Socialization of Entrepreneurial Losses through Inflation"* http://www1.fee.uva.nl/pp/bin/642fulltext.pdf], in which the author, Geert Reuten, summarizes as follows [***emphases added***]:

"To the extent that technical change accelerates, price competition precludes the full amortization of capital investments."

"In contrast with the common opinion that both technical change and competition are key characteristics of the capitalist system, they are incompatible, ***at least when technical change accelerates***."

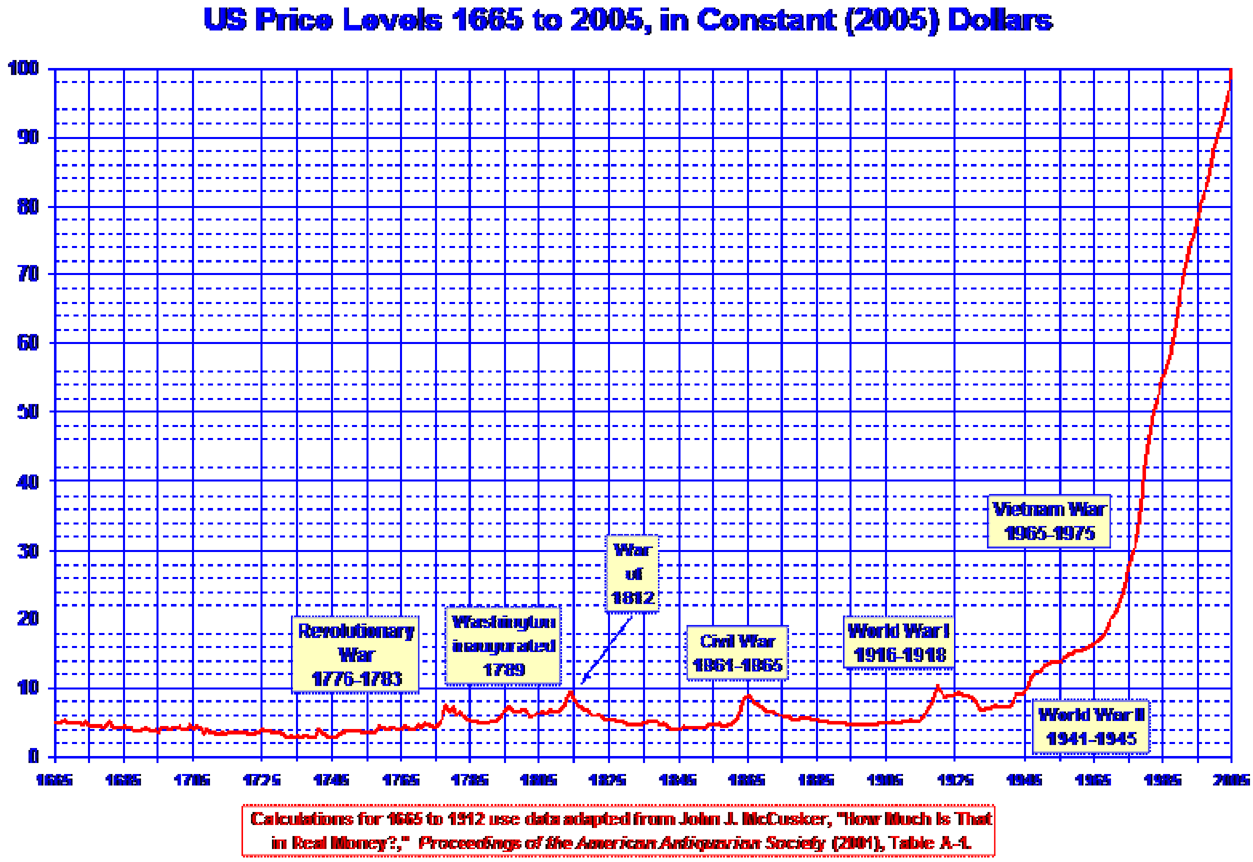
"Such ***acceleration*** then gives rise to forms of concurrence — abstinence from price competition, price leaderships, cartels. The particular form depends on the structure of production of enterprises (i.e. the make-up of the stratification of capital)."

"Concurrence is a major determinant of ***the inflationary form of the accumulation of capital***."

"Because it is in their interest, banks tend to accommodate the concurrent price settings of enterprises and so to accommodate a socialisation of private losses that would be due to the **devaluation of capital** in the case of price competition."

"Price inflation also puts enterprises in a relatively advantageous position *vis-á-vis* labour.**"**
Amplifying upon Reuten's final point, above, we note that "permanent inflation" is, precisely, a permanent tendency to ***reduce*** real wages and salaries, if nominal wages and salaries remain constant, or even if wages and salaries increase, but at a rate of increase (s)lower than the rate of general consumer price inflation.

And ***exponential*** "permanent inflation" [excepting the **1930**'s "Great Depression" 'Great ***de***flation' aftermath to the **1920**'s "roaring" ***in***flation] is exactly what the U.S. has had, ever since the "Fed" was imposed, by the ruling class, in **1913**, as shown by the data unified in the following remarkable, and little-known, graph, also cited here previously --



[source: http://oregonstate.edu/cla/polisci/faculty-research/sahr/pl1665.htm -- see http://oregonstate.edu/cla/polisci/sites/default/files/faculty-research/sahr/inflation-conversion/pdf/price-levels_1774-2012.pdf for an update to **2012**, which shows a slight down-tick in **~2008** for "The Great Recession"].

Certainly, the continual *de facto* reduction of wages, by Fed-managed chronic, exponential inflation, helps to shore up capitalist profits, and their rates, and to mask, to delay, or even to avert technodepreciation losses.

For a ruling class hell-bent on averting the massive technodepreciation of its older-vintage, legacy capital plant and equipment in its U. S. and U. K. core, due to the price competition of newly-industrializing, lower-wage nations in its periphery, installing the latest, most advanced vintages of capital plant and equipment from the start -- i.e., for a 'Capitalist Anti-Capitalist' ruling class, hell-bent on suppressing capitalist industrialization in the periphery of its core, hence hell-bent on creating a "Third-World" of military dictatorships and rising poverty -- it certainly helps to have a "Federal Income Tax".

That tax allows that ruling class to, in effect, create a new category of "surplus-value", draining away part of the wages of the working class as personal income losses, paid to the national state, and using the vast proceeds of those income taxes to force the core working class to pay for "foreign aid" to the military junta's that the ruling class sets up in those "peripheral" nations, to suppress industrial development there, and to massacre democratic nationalists there who oppose that suppression.

Veblen pointed out how episodic wars can temporarily mitigate the tendency to chronic depression that he describes: "it was the Spanish-American War, coupled with the expenditures for stores, munitions, and services incident to placing the country on a war footing, that lifted the depression and brought prosperity to the business community."

World War **I**, launched by the core ruling class about the same time that it imposed the Fed, and the Federal Income Tax, upon the U. S. working class, certainly represented a big boost for manufacturers of munitions, and for the financiers who financed them, enabling them to shamelessly sell military "goods" to all sides of the conflict -- military goods that would not "last" on shelves, but that, instead, would be used -- and used up -- in short order, requiring rapid replacement, hence new repeat sales in rapid succession.

Making war, and preparation for war, into a permanent institution, a "military-industrial complex" [Eisenhower], massively supported by the working-class income, and by the profits of subordinated capitalists, taxed away from them by the Federal Income Tax, would give a lasting boost to "business", at the cost of diverting vast former forces of production into forces of destruction of forces of production, whenever those resulting military "goods" were used, or to mere waste of productive forces when those military "goods" simply sit idly in arsenal.

¿But what new kinds of capitalist "crises" -- of global "Great Depressions" and "Great Recessions" -- and the Totalitarian Dictatorships, the Genocides, and the Global Wars to which they lead -- arise out of the dynamics of a capitalism mutated by National Income Taxes, National "Military-Industrial Complexes", and National, fiat-currency-foisting "Central Banks", *a la* the U.S. "Fed"***?***

To the answering of those, and related, questions, we plan to devote many subsequent discussions.