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The UK InterWar Rate of Profit 1920-1938

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Abstract

The UK rate of profit rose considerably over the inter-war period, recovering from a historically low level to a level similar to those obtained before the war (from 10.6% in 1920 to 18.1% in 1938). In this light, the inter-war period can be viewed as one of significant recovery for capital, though the high degree of volatility exhibited by the trajectory of the profit rate suggests that this was not an untroubled recovery.

Investigating empirically the underlying causes of this recovery within a Marxian framework focuses on measures of class struggle within production and distribution, and brings to the fore the question of whether to analytically distinguish between productive and unproductive labour - employing this distinction in analysing the UK interwar data is found to have significant bearing on how that data is interpreted.

Not employing the productive/unproductive labour distinction, a decomposition of the profit rate into the rate of surplus value (Profit/Wage ratio) and the composition of capital (Capital/Wage ratio) suggested that, over the inter-war period, the rate of profit was dominated by a steady decline in the composition of capital, but that short rum movement was explained by volatility in the rate of surplus value.

The rate of surplus value was found to rise strongly over the 1920s and over the 1930s, but fell sharply in the slump of 1931 to the extent that over the period as a whole its trend is comparatively flat. The rate of increase in the rate of surplus value was found to be broadly similar over the 1930s and the 1920s, but its movement more volatile over the latter decade, suggesting greater class conflict over profit share in the 1930s compared to the 1920s - a surprising result given the evidence of the strike statistics of the interwar period.

Taking account of the productive/unproductive labour distinction, the composition of capital is still found to fall, but now accounts in broadly equal measure with a clearly rising rate of surplus value in explaining the increase in the rate of profit. And volatility

in the rate of surplus value is found to be more pronounced over the 1920s than the 1930s.

The picture that emerges is one of profit rate increase over the 1920s through class struggle over real wages and the intensity of work; whilst the composition of capital fell, largely as a result of wage and price movements. In contrast, the 1930s saw the composition of capital fall, not as a result of price and wage movements, but due to a fall in the technical composition. As this was accompanied by rising real labour productivity, there is a suggestion of improvement in the management and quality of capital, perhaps due in part to the introduction of electric unit-drive.

The marked effect of employing the productive/unproductive labour distinction is accounted for by the steady and significant increase (40% over 1920-1938) in the proportion of unproductive labour in the total workforce. Occupation data indicates that the proportion of supervisory/managerial and clerical labour employed in production increased significantly over the interwar period, and raises the question of whether this acted not only to retard the rise in the rate of profit as an increasing cost to capital, but perhaps also acted to increase the rate of profit through greater supervision of workers and more efficient management of resources.