There is no Sraffianism in one country: exploring the interest-profit nexus

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Author: FabrÃcio Pitombo Leite

A well-known claim associated with some Sraffian economists, e.g. Pivetti (1985; 1991) and Panico (1988), follows the idea that the rate of profit is "susceptible of being determined from outside the system of production, in particular by the level of the money rates of interest" (Sraffa, 1960, p. 33). By exploring the World Input-Output Database (WIOD), for both the long-run version for the period 1965-2000 and 25 countries and the 2016 release for the period 2000-2014 covering 43 countries, this paper tries to make sense of Sraffa's suggestion. As the database contains an estimation for the rest of the world in both cases, world input-output tables can be computed for each year and, from the same dataset, also national input-output tables by country. For the long-run WIOD, it is possible to compute the maximum rate of profit considering only circulating capital and establish its relationship with an interest rate. Along this research, OECD (2024) long-term interest rates were the choice on empirical grounds, but the use of a long-term rate can also be justified by theoretical reasons. For the 2016 release, besides the maximum rate of profit for circulating capital, the Socio-Economic Accounts (SEA) allow the calculation of national maximum rates of profit considering both circulating and fixed capital, as estimates for the capital stock are available, and also of general uniform profit rates, as the wage-shares can be computed from the same dataset. One clear regularity emerges from the data: in spite of the relationship between the interest rate and the profit rate is found to be null or negative for most national data, and also negative for pooled data for the period 1965-2000, the relationship between virtually any national interest rate and the rate of profit taking the world as a whole is definitely positive. Naturally, this finding also relies on the fact that most long-term interest rates in the world are highly correlated. For the period 1965-2000, major countries like France, Great Britain and the United States presented interest rates negatively correlated with their national maximum rate of profit, but positively correlated with the world maximum rate of profit. It has been shown that a panel would find a positive relationship for the period 2000-2014, but one that is contingent to few extremely influential observations for a couple of countries - besides visual inspection, statistics for influential observations have shown the Greek and Lithuanian cases as the most conspicuous. National evidence of this correlation is much more mixed for the period 2000-2014, but, with the exceptions of Portugal and Greece, which was struggling with its worst economic crisis in history at that time, it is very indicative that none of the other countries with complete long-term interest rate series experienced negative correlations between national interest rates and world maximum profit rates. Even the case of Greece is very peculiar: the skyrocketing interest rates by the crisis period occurred with concomitantly large profit rates inside the country, not matched by similarly high world profit rates. It is also interesting that flat relationships with national profit rates as in Norway, Sweden or the United States have been turned out to be very strong and positive in the world profit rates case. The data deducting countries' wage-shares show the inversion of the relationship interest-profit in the United States and in Canada. In the opposite trend, from a negative relationship between interest rates and maximum rates of profit to a positive one with general rates of profit, Brazil has experienced a significant change in its wage-share in the period. The explanatory power for pooled data is superior when general rates of profit are taken instead of maximum rates. As long as wage-shares are not available for the proxy for the rest of the world, a 43-country general rate of profit was calculated and most of the results did not indicate a better adjustment than the obtained for the world maximum rate of profit. The inclusion of the stock of fixed capital has not improved estimates, with the number of countries with null or negative relationship increasing relative to the case without capital stock. For pooled data, a lack of a discernible relationship can be observed for the profit rates including the stock of fixed capital. As intriguing as the correlations can be per se, some panel data tests with controls used before in the connected literature were also performed, evaluating the robustness of the results. The paper presents the theoretical reasons for the positive relationship between the interest and profit rates building on the branch of Sraffian literature known as monetary theory of distribution, as well as a tentative explanation for the emergence of this regularity only for the world as a whole.