Some critical appraisals on the profit-led models of growth

Marcus Cardoso and Eduardo Crespo

Abstract

This paper aims to analyze critically some Marxist and neo-Marxist models, which establish a direct connection between income distribution and economic growth expressing investment as a function of profits or some definition of the rate or profit. Our analyses points out some handicaps of these profit-led growth models, as the fact that they ignore the capacity effect of investment and the assumption that the additional capacity created by them will be sanctioned by the other components of aggregate demand, which seem to appear passive in these models. In other words, Say's Law is implicitly present in some versions of the Marxist theory of growth. Even if Say's Law were accepted, these models cannot explain growth without introducing some autonomous expenditure independent of previous income. Another difficulty of these models is that they are unstable when other components of autonomous expenses, different than investments, are considered. In this approach, we also observe that the rate of capacity utilization in the long run does not tend to the normal rate of capacity utilization. We propose that there is not any strict and necessary connection between profits and growth. When the actual production satisfies a minimum floor for the rate of profit, growth and investment depend only on the expansion of aggregate demand.