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# Marx s' Theory of Finance and the 21st Century

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## Abstract

One of the most common criticisms addressed to Marxist economists is that capitalism has dramatically changed between the times of Marx and the present. In this regard Marxist Political Economy should belong to the field of History of Economic Thought rather than the field of Economic Analysis. The criticism does not come only from mainstream economists. Researchers working on the concept of Financialization have argued that contemporary "financialized" capitalism is so different from that analyzed by Marx that the explanation of economic and financial crisis requires a new theory of money and finance and maybe a new theory of capitalism altogether. This paper argues differently. Using certain of Marx s' economic correspondences for the New York Daily Tribune together with material from the Capital and the Theories of Surplus Value, it shows that Marx s' theory of money and finance is highly relevant. Moreover, it is the base of a different theory of asset pricing which, contrary to the poor empirical results of mainstream models, performs very well. Empirical tests on S&P 500 index for a period starting in 1871 and running to the present provide strong inference in this regard. The main conclusion of the theory is that the required rate of return for the stock exchange is located in the real sector. This implies that financial capital controls the rate of return. It is the exact opposite conclusion from the "efficient market hypothesis" where no one can "beat the index" in an information efficient market. This theory of asset pricing combined with Marx s' crisis theory can explain the trigger mechanism of capitalist crises like the one of 2007/8. Because of the latter I do not reject the importance of finance in contemporary capitalism. However, I argue that it s' function can and should be incorporated in the operation and the contradictions of the profit motive.

**Keywords:** Marxism, Financialization, Asset Pricing, Capitalist Crisis, Financial Crisis

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