

# **A Correction to the Profit Rate for the Presence of Financial Markets: Implications for the Origins of the Present Great Recession**

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## **ABSTRACT**

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### **Abstract**

In the past two decades the number, variety, and monetary value of marketable financial instruments have grown by orders of magnitude. While traditional equities have certainly grown in number and value, the greatest growth has taken place in securities since the turn to securitized lending in the 1970s. This is probably the single most significant development in what many writers term 'financialisation'.

This article argues that these assets, when they function as money-capital, enter into the equalization of the rate of profit. They constitute part of the capital advanced by the capitalist class as a whole and should therefore be included in the denominator of the rate of profit.

In the two main world financial markets at least – the UK and the US - The resulting measures of the rate of profit reveal a general, systematic and virtually uninterrupted decline in the rate of profit in these countries since the late 1960s.

The paper then re-examines the definition of the rate of profit found in Marx's writings on the subject and argues that it confirms the inclusion of financial instruments in both the concept and measure of the general rate of profit as defined by Marx.

This calls into question analyses of the world economy, such as that offered by Duménil and Lévy (2004) which report an economic recovery following the crisis of the mid-1970s notably in the USA, and which attribute the cause of the present crisis to a 'crisis of neoliberalism'. It also calls into question the idea that 'financialisation' is an autonomous phenomenon, independent of a more general decline in Western Capitalism.

The expansion of financial instruments of the last thirty years, viewed in this light, should be interpreted as one particularly morbid and malignant form of a protracted crisis of Western Capitalism which started in the 1970s and whose contradictions were never resolved, merely displaced into other spheres of the geopolitical economy of the world, only to return with full force in the present Great Recession to the countries, and the economic system, in which it originated.

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