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Fictitious Capital: revisiting a controversial category[*]

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Abstract

This paper provides an interpretation of Marx's category of fictitious capital by analyzing its main attributes and pointing out its relevance in the understanding of the dynamics of capitalism from a value-form approach. Fictitious capital is posited as a result of a logic-genetic development process from interest-bearing capital. It is suggested that it should be defined by three key-attributes: future yield, the secondary market, and real nonexistence. A critique of the frequent use of this concept in the Marxist-inspired literature in which fictitious capital is defined as a category associated to the degree of dissociation between its (fictitious) value and the value of real capital that it might eventually represent is also carried out. It is argued that the price variation in a number of modalities of fictitious capital does not make it more or less fictitious. In this perspective, the importance of the category in terms of understanding contemporary capitalism is analyzed, particularly in the process of the allocation of social labor.

Keywords: fictitious capital; value-form; Marx

JEL Code: B51; B24; B14

Resumo

Esse artigo busca oferecer uma interpretação da categoria marxista de capital fictício a partir de seus atributos e apontar para sua relevância na compreensão da dinâmica capitalista a partir de uma abordagem centrada na forma-valor. Em particular, apresenta-se o capital fictício como um desdobramento lógico-genético do capital portador de juros e propõe-se que o mesmo seja definido a partir de três atributos-chave: a renda futura, o mercado secundário e a inexistência real. Faz-se a crítica do uso frequente desse conceito na literatura de inspiração marxista que define o capital fictício como uma categoria associada ao grau de distanciamento entre o seu valor (fictício) e o valor do capital real que por ventura represente. Argumenta-se que a variação nos preços das diversas modalidades de capital fictício não o torna mais ou menos fictício. A partir disso, analisa-se a importância dessa categoria para o entendimento da dinâmica do capitalismo contemporâneo, sobretudo para o processo de alocação do trabalho social.

Palavras-chave: capital fictício; forma-valor; Marx

[*] This paper is a newer and improved version of Palludeto and Rossi (2016).

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Introduction

In the past few decades there has been major academic intervention in the role of finance in economic dynamics across a variety of theoretical approaches. The heterogeneous group of researchers that are critical of the conventional economic theory are, in particular, striving to understand the financial dimension of contemporary capitalism. Generally, Marxist contributions are a combination of reclaiming, updating and/or extending some categories related to capitalist finance developed by Marx such as interest-bearing capital and fictitious capital.

This task is made more difficult by the fact that the analysis of finance in Marx is one of the least developed issues by the author. His findings are fragmented into a series of works published posthumously, many of which in volume 3 of Capital in 1894 (edited by Engels). The "unfinished" character of Marx's writings only makes it harder to solve the controversies surrounding the Marxist-inspired literature on the subject and evidences the need to consider the related categories in a systematic manner. Indeed, as highlighted by Perelman (1987, p. 172), "[m]uch of Marx's work on fictitious capital had not progressed beyond the stage of the inquiry." In this context, the diversity of what defines it as fictitious has been vast; as Freeman (2012, p. 185) arguments, fictitious capital appears as "[…] arguably the most abused of Marx's multiply-misrepresented categories".

Generally speaking, fictitious capital refers to stocks, public bonds, and other modalities of securities. Even if it can be argued that there is some level of agreement about the variety of forms through which this modality of capital appears, the same cannot be said about what defines its fictitious nature. The importance of this question should not be neglected when considering the widespread application of the category in terms of understanding contemporary capitalism (Chesnais, 2016).

In this context, this paper provides an interpretation of Marx's category of fictitious capital starting with its main attributes and pointing out to its relevance in comprehending capitalist dynamics from a value-form approach. To do so, the following section provides a general view of the recent interpretations of fictitious capital in the Marxist literature. In the second section, an attempt to reconstruct the category of fictitious capital as a result of an unfolding process from interest-bearing capital can be found. Fictitious capital is then conceptualized using three key-attributes: future income, the secondary market, and real non-existence. Finally, the fourth section explores how fictitious capital redefines the previous posited categories and codetermines the allocation of social labor by bringing new elements to the understanding of the dynamics of contemporary capitalism. Brief final considerations close the paper.

1. Fictitious capital in the Marxist literature: a brief overview

The objective of this section is not to review the many interpretations present in the current Marxist literature on fictitious capital, but to critically evaluate the common approach of fictitious capital as a category associated to the degree of dissociation between its (fictitious) value and the value of real capital that it might eventually represent.

An emblematic example of this perspective is found in Foley (1991) in the Dictionary of Marxist Thought, edited by Tom Bottomore. Foley (1991, p. 116), when treating stocks as a specific form of fictitious capital associates their nature to the higher or lower correspondence of their value in relation to the value of the capital of the company they represent:

> The price of shares will be established to make them attractive as investments, in competition with loans, given the higher risk attached to the flow of residual profit relative to the flow of interest. But this price of shares may exceed the value of the capital actually invested in the firm's operations. Marx calls this excess fictitious capital since it is part of the price of shares which does not correspond to the capital value actually participating in the firm's production[1].

Accordingly, fictitious capital corresponds only to the "excess" or difference in value between the stock and the capital that materializes via means of production and labor force. Consequently, by considering a public bond to be fictitious - as Marx does - the author infers that it is fictitious capital in its entirety since "[t]he state debt, for instance, corresponds to no capital investment, and is purely a claim to a certain fixed part of the tax revenues" (Foley, 1991, p. 116). Therefore, according to Foley (1991), the degree to which a given security is fictitious capital is dependent on the form it assumes - whether it represents capital as function or not - while its value is above or below the value of the referred capital[2].

Mollo (2013), on the other hand, seems to have the same conception as Foley (1991), albeit more specific, when associating fictitious capital to the destination of monetary resources that were exchanged for securities. Thereby, when contributing to the direct formation of value, capital, even if it assumes the form of stocks, cannot be taken to be fictitious capital. For example, according to the author "[...], an initial offering of shares **would not necessarily be considered fictitious capital**"

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[1] The same argument appears in another of his works in the following way: "The market will capitalize the prospective stream of dividends at the going rate of interest, just as it capitalizes the interest paid on the state debt. The resulting capital value may greatly exceed the value of the capital actually invested by the corporation, **the excess being a fictitious capital**" (Foley, 1986, p. 115, emphasis added).

[2] The theoretical implications of such conceptions are not negligible. As Pinto (1994, p. 45) observes: "To limit the notion of fictitious capital to the value it exceeds the invested value in the company operations is would be the same as taking the appearance of the multiplication of the capital to be true (real). Exactly the opposite of what Marx seems to intend. After all, the non-exceeding parcel would still be doubly represented - stocks and means of production". This kind of approach appears to originate from the adoption of a partial view of reality, as taken by one agent or another in an isolated way. As Paulani (2014, p. 793, emphasis added) correctly highlights: "[...] despite the fictitious content in the aggregation, **this wealth is true for each agent taken individually** – and produces requirements in relation to the real income, as if they were real capital".

(Mollo, 2013, p. 222, emphasis added). Thus, according to Mollo (2013, p. 221) "[...] fictitious capital is fictitious because is not effectively associated with capitalist production and the creation of surplus value". Part of the financial assets in circulation, therefore, is not fictitious capital - or only in a minor way when compared to the other securities - since they express monetary resources originally directed to the productive activity. Like Foley (1991), the author suggests the existence of a scale given by the monetary resources exchanged for financial securities where the degree to which a certain bond is fictitious capital or not, can be evaluated.

The same perspective seems to be held by David Harvey (1982, p. 95) while arguing that fictitious capital means, in brief, "[...] money that is thrown into circulation as capital without any material basis in commodities or productive activity". Therefore, it is clear that, for the author, public bonds are [...] a purely illusory form of fictitious capital" (Harvey, 1982, p. 277) given that the monetary resources obtained by the state are not converted into means of production and labor force - and, therefore, do not contribute to the production of commodities and the generation of value and surplus-value[3].

The identification of fictitious capital with the degree to which a given value corresponds to the value of the commodities also appears in the MIA Encyclopedia of Marxism[4]:

> Fictitious Capital is value, in the form of credit, shares, debt, speculation and various forms of paper money, above and beyond what can be realized in the form of commodities. [...] **Fictitious capital is that proportion of capital which cannot be simultaneously converted into existing use-values** (emphasis in original).

Accordingly, fictitious capital is defined in contrast to the materiality that would characterize what is taken to be real. If a specific sum of monetary resources circulates as capital - that is, as a self-valorizing value - and does not correspond to commodity production, this capital-value is fictitious according to these interpretations. By defining what configures fictitious capital as a category, Carcanholo and Sabadini (2009) characterize fictitious capital based on the value of the capital it represents and on its contribution to the productive process. According to the authors, the reason why capital is fictitious:

> […] is in the fact that behind it there is no real substance, and because it did not contribute at all to the production or the circulation of wealth. At least in the sense that it finances neither productive or commercial capital (Carcanholo; Sabadini, 2009, p. 43; our translation).

As with Mollo (2013), to whom the distinctive aspect of fictitious capital is the non-financing of productive activities, the authors consider that it is the use of monetary resources that determines

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[3] As Harvey (1982, p. 278) highlights: "This characterization is certainly appropriate for much of the national debt. But there are also forms of public expenditure that do not fit this model". In this case, it is suggested that as the utilization of **monetary resources** by the state contribute to the productive activity, such public bonds would not appear as "forms of purely illusory forms of fictitious capital". In short, the author appears to suggest, thereby, the existence of a scale given by a higher or lower correspondence of a given financial security in the productive process by which it is possible to define the fictitious nature of capital.

[4] Retrieved March 08, 2019, from: https://www.marxists.org/glossary/terms/f/i.htm.

the nature of a given capital. In this context, Carcanholo and Sabadini (2009) argue that when the value of a stock represents the value of the property of the company to which it is associated, then it must be considered type 1 fictitious capital - different from Foley (1991) who would not consider it as fictitious. On the other hand, when the value of this stock exceeds the components of the capital it represents, it should be considered type 2 fictitious capital. In this case, the authors classify all "speculative" valorization of real assets or shares as type 2 fictitious capital since type 1 capital does not present the same characteristics given that to a certain extent it corresponds to the value of the real capital (Carcanholo; Sabadini 2009, p. 45). Note this argumentation presupposes a scale in which type 2 fictitious capital is even more fictitious than type 1 capital[5].

In the following sections, in contrast to the above-mentioned approaches, it is argued that the meaning of fictitious capital is not associated with a higher or lower correspondence to the capital effectively invested in the production process. In other words, the use of monetary resources that had originally been interchanged with financial assets is irrelevant to the definition of fictitious capital and the variation of its value is not the benchmark to determine how fictious it is.

2. From interest-bearing capital to fictitious capital: the genesis and meaning of a category

2.1 Brief methodological remarks

The most general meaning attributed by Marx to the theoretical apprehension of the capitalist reality in its multiple determinations suggests that for every stage of development of a category the meaning of the preceding categories is redefined. The category is not a simple analytical instrument resulting from scientific speculation, but the mental representation of the forms of being of concrete social relations. Otherwise stated, as Marx argues (1857-58, p. 43), the categories express "forms of being", "determinations of existence" of the social relations given "both in reality and in the mind"[6].

As Oakley highlights (1984, p. 152, emphasis in original), in Marx "[w]hile the category could be defined in itself, its **meaning** at any time could only be found by considering its **situation** in the contemporary context". It is worth noting that the meaning of a particular category is not independent of the totality in which it is incorporated, and thus of the position it occupies in a given analytical context in light of the remaining categories that make up totality (Arthur, 2008, p. 212-213). Once

[5] According to the authors, the magnitude that type 2 fictitious capital has reached in the past few decades reveals the eminent speculative character of contemporary capitalism. As a result, they label fictitious capital in contemporary capitalism as "parasitic speculative capital", which denotes, on the one hand, the fact that its constitution is exclusively related to the speculative dynamics that prevails in the financial market, and, on the other, to the lack of contribution to the productive process, while dominating it (Carcanholo; Sabadini, 2009).

[6] For details on the meaning of the categories in Marx, see Kain (1986).

such totality is enriched by introducing the rather complex-concrete categories - such as fictitious capital - the meaning and position of the previous, simpler-abstract categories are altered. Put differently, the process of constituting the totality of the capitalist reality as an intelligible totality depends on the constant rearranging of the categories it is constituted by.

In turn, this rearranging suggests a dynamic process that characterizes dialectics as a method[7] and suggests the subordination of the simpler-abstract categories to the rather complex-concrete and developed ones, i.e. to the " […] rather concrete categories from the perspective of the structuring of the capitalist mode of production and those that take the process of **real abstraction** that follows from the unfolding of such forms to paroxysm" (Belluzzo, 2012, p. 87, emphasis in original). If the most complex category - reached dialectically - adds meaning to the set of already reached categories in the examined reality, then it subordinates the others from the point of view of structuring reality.

When considering Hegel's legacy in his analysis of interest-bearing capital, Meaney (2014, p. 60, emphasis added) suggests that the same process characterizes Marx's work as a whole:

> When a higher, more complete or more complex form of existence emerges [...], it cancels out the inadequacies of the less complex. But this does not mean that this higher, more complex form of existence annihilates the less developed forms of existence. **These less developed forms are in fact transformed since they are now parts of our elements in a greater whole within the systematic exposition**.

Therefore, the succession of economic categories in Marx cannot be reduced to a gradual linear process of exposition. In effect, as one category unfolds from another it affects retroactively the position of those that preceded it. This redefinition operates in the change of parameters that dictate the movement of every category in this amplified totality and configures the essence of the subordination or dominance of one category in relation to another[8].

That being said, the development of the value-form, the main connector of the categories elaborated by Marx, is a methodological two-fold process that comprises:

> (a) an analysis on **different levels of abstraction**, which aims at (b) a process of **gradual clarification-concretization**, starting from a commonly accepted definition of the concept under discussion and reconstructing it step by step into a new (Marxian) concept (Milios, 2012, p. 1, emphasis in original)

[7] For more on Marx's conception of dialectics, see Wilde (1991)

[8] An example is given by Marx (1894) when reconsidering the general profit rate when non-industrial forms of capital, such as commercial capital, appear. In this case, the tendency towards the equalization of the profit rates must incorporate other functional forms of capital, even if regarded unproductive. Evidently, this leads to reinterpreting the exercise of transforming values into production prices that only assumed industrial capital in the average profit rate: "On our first consideration of the general or average rate of profit (Part Two of this volume), we did not yet have this rate before us in its finished form, since the equalization that produced it still appeared simply as an equalization of the industrial capitals applied in different spheres. This was supplemented in Part Four, where we discussed the participation of commercial capital in this equalization, and commercial profit. [...]. Whether capital is invested industrially in the sphere of production, or commercially in that of circulation, it yields the same annual average profit in proportion to its size" (Marx, 1894, p. 459).

This combination can be immediately perceived in the development of the value-form that Marx presents throughout the three volumes of Capital and that can be summarized in the following way:

Figure 1.
Development of value-form: the systematic unfolding of categories in Marx

Source: own elaboration.

According to picture 1, every category assumes a different meaning at each point of development of the value-form. When money derives from commodity, it assumes a different meaning, transfigured, given that the parameters that dictate the way in which they exert their position change. Likewise, when capital derives from money not only is money now a general equivalent, wealth in its abstract form, but also potential capital, given that it becomes the starting and the ending points in the process of valorization. At the same time, commodities are not simply the outcome of the individual labor of producers, but of the various capitalists in competition. Therefore, for these commodities to be the object of the production, they must enable the capital from which they originated to be reproduced, i.e. that it valorizes by obtaining a conventionally accepted profit rate.

In light of fictitious capital, interest-bearing capital, industrial and commercial capitals, money, and even commodities obtain a different and transfigured meaning, as will be discussed in section 3. Accordingly, Perelman (1987, p. 191) emphasizes that:

> [...] on a theoretical plane, the introduction of new categories modifies the meaning of more basic categories. In this sense, the category of fictitious capital represents an important addition to Marx's overall system of analysis.

Accordingly, even though many of the authors above present fictitious capital as a result of interest-bearing capital, the content of the passage - which is needed from the viewpoint of Marx's argument - does not seem to have received enough attention in terms of the development of the value-form. The fictitious capital form changes the capitalist system and, thus socioeconomic organization and the allocation of social labor, as will be discussed in section 3. Therefore, in its most advanced forms, capital is the social relation in which the laws of movement determine the remaining economic and social relations[9]. Consequently, attention must be dedicated to the definition of fictitious capital (section 2) and to the role it plays in the global process of valorization (section 3).

[9] That is why Belluzzo (1998, p. 107) suggests that Marx's value theory should be considered a theory of the process of capital valorization. He also highlights Marx's dissociation with the Classical Political Economy, on which his critique

2.2 From interest-bearing capital to fictitious capital

First let us see how fictitious capital results from the development of the value-form starting with interest-bearing capital. As money's capacity to turn into capital is consolidated and thus, as the capitalist relationships deepen, money becomes a commodity, the capital-commodity, and it shapes what Marx (1984) calls interest-bearing capital: since money functions as capital - therefore, in the context under scrutiny, exploiting the labor force -, it assures rent to its bearer, in the form of interest, which ultimately corresponds to a share of the surplus-value. Contrary to the remaining commodities, the capital-commodity is socially considered capable of providing income to its bearer in the form of interest, independently of the intermediary forms of the value previous to returning to its owner with the increased value. That is why Marx (1984, p. 461) could synthesize its movement using the formula D-D', that is, money (D), which, acting as capital, generates more money (D'=D+ΔD).

With interest-bearing capital, any sum of money, as capital *in potentia*, is capable of generating income for its bearer. This derives simply from property. The interest, accordingly, appears as an inherent attribute of a sum of value that valorizes itself. In the process of valorization, the need for mediation ultimately disappears, as Marx (1984, p. 469) highlights.

The remuneration of loaned money as capital, that is, the general equivalent commodity capable of valorizing itself, becomes the reference, or basic parameter from which the capitalist evaluates other ways to allocate wealth. In the same vein, interest-bearing capital redefines the conditions in which industrial and commercial capital function as they are, and, therefore, the production process and the circulation of commodities rearrange the totality that is now presented. The term "bearer" is representative of the extension this process acquires since it reveals that the total amount of money considered as potential capital now carries interest inherently.

If the existence of interest-bearing capital implies that a sum of money taken as capital enables the owner to obtain a flow of future income, any flow of future income would be seen as the result of the sum of money, in the form of capital, in the present. In other words, as Marx (1984) highlights, from the form of interest-bearing capital any rent flow appears as interest of capital, whether it exists or not:

> The form of interest-bearing capital makes any definite and regular monetary revenue appear as the interest on a capital, whether it actually derives from a capital or not. **The money income is first transformed into interest, and with the interest, we then have the capital from which it derives** (Marx, 1894, p. 595, emphasis added).

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is based. For Marx's critique of the Classical Political Economy, see Grespan (2001) and Heinrich (2012). Regarding Marx's work in its entirety as a general critique of the capitalist society, see Celikates (2012).

Therefore, in the capitalist system the total amount of money, as capital, potentially produces a rent and every rent can be presented as the yield of a sum of initial money, as capital. Hence, the constitution of fictitious capital - in which the flow of income grants money as capital – contrary to interest-bearing capital - where money, as capital, allows a flow of rent (interests). The formation of fictitious capital is the conversion of a flow of future income into capital value in the present. Thus, fictitious capital results from the logical-genetic development of interest-bearing capital. Consequently, fictitious capital is a transfigured form of interest-bearing capital.

3. Fictitious capital: definition and key-attributes

Fictitious capital can generally be defined as negotiable contractual rights of a flow of rent with the three main attributes being: future income, secondary markets, and the real nonexistence.

3.1. Future income

The formation of fictitious capital value is the capitalization of an expected flow of income at the conventionally accepted interest rate: “The formation of fictitious capital is known as capitalization” (Marx, 1894, p. 597). Put differently, fictitious capital corresponds to the present value of a given flow of future income, which turns any flow of rent potentially into capital which materializes into securities priced by the market. As Marx (1894, p. 597) argues “[a]ny regular periodic income can be capitalized by, reckoning it up, on the basis of the average rate of interest, as the sum that a capital lent out at this interest rate would yield”. Moreover, the presence of a benchmark interest rate in the process of capitalization shows the way fictitious capital presupposes interest-bearing capital. From an ontological perspective, there is no fictitious capital without interest-bearing capital and neither of them is intelligible without considering real capital.

Regarding interest-bearing capital, Marx highlights the use of money as a commodity whose use value is to reproduce itself. Lending - which characterizes interest-bearing capital - is to give money as a commodity. In terms of fictitious capital, however, the future income flows assume the condition of capital-commodity. Accordingly, the constitution of fictitious capital is essentially related to the transformation of future income flows into a commodity, the capital-commodity[10]. According to Michael Hudson (2010), the flow of future income is like an economic “prey” fated to be

[10] In this manner, fictitious capital is also an additional ontological step in the process of the commodification of social forms. As given by Marx, money is a necessary result of a society in which the products of labor are converted into commodities. Sequentially, capital in function turns labor into a commodity. The interest-bearing capital form, however, is the commodification of money as capital. Finally, fictitious capital is the social category that turns income flows into capital-commodity.

hunted by the financial market and conceptualized as a central arena for the capitalist competition. That is, every source of prospective income appears to be a possibility to constitute fictitious capital and, therefore, the formation of a market where the rights for future incomes are transacted.

Because of this trait, the relationship between fictitious capital and real capital is complex, since it constitutes a right not to real capital, but to a future income that might or might not be associated with real capital. Its value, the price in place, expresses the present expectations that capitalists collectively have for the future. Generally speaking, it has to do with the capacity to create future income rather than a straightforward representation of real capital. That is, it is not part of the nature of fictitious capital to represent the value of real capital, but its capacity to generate future revenue (independent of its form) pondered by the discount rate conventionally accepted and adjusted by risk. It is not related to the price of real capital, but to the price of a revenue, as argued by Hilferding (1910, p. 111):

> In reality, it is not [real] capital, but only the price of a revenue; a price which is possible only because in capitalist society every sum of money yields an income and therefore every income appears to be the product of a sum of money.

As McNally (2011, p. 154) holds, independent of the final destination of the monetary resources in which the security originated, as fictitious capital, this is simply a right to the wealth and, may or may not be realized. Even if, due to causality, the price of a given fictitious capital moves in perfect synchronicity with the price of real capital, therefore reflecting the growth of the value of the capital employed in joint-stock companies, for example, these assets would still be completely fictitious capital. Marx (1894, p. 608, emphasis added) is clear in his argument that:

> In so far as the accumulation of these securities expresses an accumulation of railways, mines, steamships, etc., it expresses an expansion of the actual reproduction process, just as the expansion of a tax list on personal property, for example, indicates an expansion of this property itself. But **as duplicates that can themselves be exchanged as commodities, and hence circulate as capital values, they are illusory** […].

Thus, it is wrong to consider that fictitious capital necessarily results from the discrepancy between the value of financial securities and the value of real capital. Even if such a mismatch is recurrent, this is not the reason for qualifying it as it is, namely fictitious. Accordingly, fictitious values do not reflect the concrete conditions for the appropriation of surplus value in the present, but an evaluation of the capability to appropriate future incomes pondered by the interest rate. In the same vein, Sotiropoulos et al. (2013, p. 50) state that "[i]t's fictitious not in the sense of imaginary detachment from real conditions of production, as is usually suggested, but fictitious in the sense that it reifies the capitalist production relations[11].

[11] In other words, the objective condition of production and appropriation of value are abstracted from the price of the fictitious capital and assume the form of a negotiable thing "[…] in a culminating moment of fetish." (Braga; Mazzuchelli, 1981, p. 61, our translation).

3.2 The Secondary Market

Fictitious capital involves either a negotiable or transferable asset, that is, the circulation of fictitious capital presupposes a secondary market where the process of capitalization takes place and the fictitious value is expressed. Hence it is about the properties that differentiate fictitious capital from credit, or interest-bearing capital *stricto sensu*.

Interest-bearing capital appears initially as a bilateral credit relationship where the lenders capital is attached to the borrower and carries the credit contract until its due date. In other words, in the interest-bearing capital the capital-value preexists and is used by a third party. The loan agreement is the immediate representation of the capital that can either be exchanged or extinguished in the context of this life relationship that constitutes a bilateral act. At first, there is no secondary market for the conventional credit relationships because the credit contract is not transferable. Therefore, there is no other pricing sphere since loan capital corresponds to the value in the contract and that will be reimbursed with interest on the due date.

As Marx argues, fictitious capital has its own dynamics, i.e. is relatively autonomous[12]. The existence of a secondary market explains this since, in some modalities of securities, it enables the divergence between face value and market value, which does not happen in conventional credit operations since the capacity for generating income of this paper wealth is constantly reevaluated by all capitalists at all moments in time. When referring to public debt, Marx shows the difference between an operation with a negotiable bond and another with conventional credit: "[...] the creditor cannot recall his capital from the debtor but can only sell the claim, his title of ownership" (Marx, 1894, p. 595). In this vein, when the owner of fictitious capital sells it, he does not liquidate it, but transfers the right for the flow of income to a third party.

The distinction between interest-bearing capital and fictitious capital highlights the difference between the traditional credit market and the capital market; unlike the latter, the former does not operate on the secondary markets. However, this does not mean that the credit operations are not potentially fictitious capital. Indeed, they do match the first characteristic of fictitious capital, its association with a future income at the present price. They only turn into fictitious capital, however, when a secondary market for this kind of operation is created. The process in which conventional

[12] For an analysis of the development of value-form as a progressive autonomisation of abstract wealth from labor exploitation, culminating in the interest-bearing capital and the fictitious capital, see Rotta and Teixeira (2016).

credit operations are turned into negotiable securities - or the simple transformation of the interest-bearing capital into fictitious capital - is known as securitization[13].

3.3 The real nonexistence

Although fundamental, the two properties above are not enough to classify a capital as fictitious capital since they also characterize real capital. A machine, for instance, is also related to future income and may be negotiated or resold on the secondary markets, where its price depends on capitalization. This expresses its capacity to generate future income for its owner. Generally speaking, real capital can be resold and repriced even if this process turns out to be expensive due to the low liquidity of this kind of capital when compared to securities. Having said that, the last characteristic of fictitious capital stresses its purely financial nature. It does not exist as real capital and appears as a multiplication of values that correspond to the transformation of future income flows into commodities.

The category of fictitious capital has always presupposed the category that counterposes it as real (Mollo, 2010, p. 132). From chapters 30 to 32 of Capital, Marx (1984) defines real capital as commodity-capital and productive capital. In other words, real capital corresponds to the commodities in circulation as capital and to the labor force and the means of production employed as capital. The use of the term “real” refers to the capacity to generate surplus-value; in short, the direct exploitation of the working class which is ultimately the source of the expansion of value. Therefore, real capital corresponds to a given form that the capital relation assumes, precisely that defined by the exploitation of the working class[14]. This elucidates that even though fictitious capital is relatively separate from the material aspect of the productive process, given that it appears purely as a security, it is a form of manifestation of the capital relation as with other forms of capital since, in the end, it represents the private power to control social wealth.

While interest-bearing capital moves away from the intermedium which marks the origin of the valorization process, namely the productive process, fictitious capital not only becomes more distant,

[13] In developed capitalist countries, especially the United States, the process of securitization has spread throughout various dimensions of social life. Students loans, for example, have been securitized, as well as mortgages and credit card debts that were packed and resold in the secondary markets. This process, just like the credit market, submits part of the future income of the students and families to transfers to the financial market. In this context, Martin (2002) highlights the “financialization of daily life” in the last few decades.

[14] It is worth noting that for Marx capital is a social relation, which appears through things or objects in the process of valorization of private wealth. Repeatedly, Marx stresses the historic-specific nature of capital. The most iconic is perhaps the footnote where he holds that “[...] capital is not a thing, but a social relation between persons which is mediated through things”: “[footnote 4] A negro is a negro. In certain relations he becomes a slave. A mule is a machine for spinning cotton. Only in certain relations does it become capital. Outside these circumstances, it is no more capital than gold is intrinsically money, or sugar is the price of sugar [...]. Capital is a social relation of production. It is a historical relation of production” (Marx, 1890, p. 932). See also Shaikh (1990).

it also assumes an even more fetishized form[15]. As with interest-bearing capital, the process of valorization through fictitious capital (D-D') seems not to be mediated by any productive process, and capital appears as a source of its own capacity for expansion since all remuneration appears as directly referred to an initial capital-value. That is, the mediation process becomes invisible, it is not explicit, and everything happens as if capital had never left its money form. With the category fictitious capital, fetishism assumes new shapes considering that: i) wealth appears in the form of fictitious capital and is priced in a particular sphere, relatively independent of the production process; ii) not only does the valorization of the existing capital appear to be independent of the production process, but the creation of new capital value in the system also seems to gain autonomy with the commodification of the flows of future income that creates fictitious capital based on future expectations of any possible source of yield.

Therefore, the capacity for taking over the generation of future wealth is attributed to fictitious capital, thus creating capital-value in the present, which is evaluated and redistributed in a particular sphere. As Hilferding (1910) highlights, the issuance of stocks, for instance, immediately adds capital-value to the system. Such value is added to the already existing underlying real capital. Monetary resources might be hoarded or used to finance the purchase of real capital, but this is not of great importance since these values are fictitious and additional - together with the value of the real capital, though not to be confused with it. Therefore, it appears as an illusory multiplication of social wealth.

According to Hilferding (1910), the price of the stock is not determined as if it were company capital, but as a capitalized quota of the participation in future income. Accordingly, stocks should not be interpreted as a part of the industrial capital, nor should fictitious capital be interpreted as straightforward pricing of real capital. In the same vein, public bonds are simply the right to a share of the state tax revenue, whether they represent real capital or not. It is worth noting that, in this case, fictitious capital in the form of public bonds are neither more or less fictitious than in the form of stocks, as some of the authors above seem to suggest. Both are simply rights to income, and both are defined, as capital-value, by the capitalization of a flow of future incomes.

Marx is clear about this: "Even when the promissory note – the security – does not represent an illusory capital, as it does in the case of national debts, **the capital value of this security is still pure illusion**" (Marx, 1894, p. 596, emphasis added), "[t]hey become nominal representatives of non-existent capitals" (Marx, 1894, p. 608). In other words, the value of a financial security as capital, be it

[15] "In this way, all connections with the actual process of capital's valorization is lost, right down to the last trace, confirming the notion that capital is automatically valorized by its own powers" (Marx, 1894, p. 597).

a stock or any kind of security, whether it expresses real capital or not, is illusory, that is, completely fictitious[16].

Therefore, the term fictitious is neither related to the excess of value common to this form of capital when compared to the supposedly "fundamental" value of the enterprise it represents, nor is it related to the use of the resources acquired from the selling of the financial assets. The sum of the price of this capital is fictitious in the sense that it does not correspond to a previously given value, it actually derives from capitalization and, for the same reason, its dynamics are relatively independent of the conditions it represents[17] - since it is associated to expectations regarding the profits of the company, the state capacity for tax revenues, the change in interest rates, the exchange rate, and so forth.

For example, theoretically, there could be an expansion in the fictitious values in the capitalist system without an increase in real capital, i.e. without an increase in present surplus-value extraction. Such expansion may occur purely as a result of the creation of rights to future income. As Marx (1984, p. 599; emphasis added) observes:

> In all countries of capitalist production, there is a tremendous amount of so-called interest-bearing capital or 'moneyed capital' in this form. And an accumulation of money-capital means, for the most part, **nothing more than an accumulation of these claims to production, and an accumulation of the market price of these claims, of their illusory capital value**.

This is a form that appears as the capital relation, which reorganizes the dynamics of the economy, the process of distribution of the social product and the allocation of social labor. The following section carries out an exploratory analysis of some of the implications of fictitious capital in the theoretical treatment of these themes.

4. Fictitious capital, the capitalist calculation, and allocation of social labor

As we have seen, for every category in Marx's theoretical structure the preceding categories are redefined in terms of operating parameters. Therefore, as the interest-bearing capital category unfolds, the allocation of social labor in a given sector becomes dependent on the relationship between the profit rate of the sector and the interest rate. Therefore, the capitalist calculation incorporates the profit-interest comparison, given that the capitalist can now invest their monetary resources in production or obtain earnings from interest. When fictitious capital is developed, however, the

[16] According to Corazza (2001, p. 52, our translation): "Fictitious is not the same as false, for the form capital, being the value that valorizes itself, is a real and true form, a developed form of the money form of value. Its content is fictitious and its value, since it does not yet exist, is not present. It may be produced in the future or appropriated by other capitals."
[17] Relative autonomy is one of the features Mollo (2010; 2013) correctly highlights as a characteristic of fictitious capital.

capitalist's calculation considers the possibility for the flow of expected income of any business to be capitalized in present values and liquidated in the financial market. This potentially guides the allocation of social labor[18].

In this context, "[t]he valuation process carried out by financial markets has important consequences for the organization of capitalist power relations" (Sotiroupolos et al., 2013, p. 2)[19]. Thus, the process of capitalization can potentially include the whole socioeconomic environment, redefining the capitalist calculation and, therefore, the form of pricing. In Paulani's (2014, p. 791) words, capitalization is promoted to a principle:

> It is the omnipresence of capitalization in all transactions that renders objective the power of interest-bearing capital. As a consequence, any sum of money, any specific monetary revenue, whether or not it is generated by capital, appears as the interest of capital and causes the emergence of fictitious capital [...]. Fictitious capital, then, is everything that isn't capital, wasn't capital and will not be capital but works as such. It works as such because of the capitalization principle.

In a short passage, interestingly not commonly cited by commentators, Marx (1894, p. 476) suggests the relevance of evaluating the capacity of private wealth to generate future income in the capitalist calculation once interests are considered: "The value of money or commodities as capital is not determined by their value as money or commodities but rather by the quantity of surplus-value that they produce for their possessor". Put differently, based on capitalization, the price of a simple machine, as real capital, does not simply correspond to labor time spent on its production, but to the capitalized expected income based on a given interest rate.

Since it conditions pricing, this process refers, from a theoretical viewpoint, directly to the transition from values to production prices. Debating the complexity of the transformation of values into prices "problem", Marx goes beyond the scope of the present study, but it is worth pointing out possible interpretative consequences when fictitious capital is posited[20].

Not only is the pricing of a machine redefined by the inclusion of the fictitious capital category and the process of capitalization, but the same also happens with the set of capitalist enterprises. As Toms (2010) argues, from the mid-nineteenth century onwards, with the accelerated development of joint-stock companies, and among a variety of possible ways to generate profit, there is evidence that

[18] This process appears in Hilferding (1910), for example, with the constitution of the promoter's profit, which manifests as an indicator of which sectors seem financially advantageous at a given moment in time.

[19] In the history of the capitalist system there are many examples of this process, especially in moments of accelerated economic expansion followed by crises. The English and American railway booms discussed by Marx (1890), the rapid growth in the communication - mainly the radio - and the automobile sectors in the 1920s and 1930s, the accelerated expansion of optic fibers in the United States in the mid and late 1990s, and more recently, the real state expansion in several countries, all express the capitalization and liquidation of these enterprises in the financial market through stocks and securities. In every event, the crucial factor was the identification of all possible applications of capital based on return expectations evaluated in the financial market.

[20] Such considerations, for instance, are not present in the Sraffian interpretations of Marx, as in Garegnani (1984; 2018) and Serrano (2007). They attribute an instrumental character to Marx's theory of value and disregard its intrinsic financial-monetary dimension.

the discounted future earnings flows (present value) appears and becomes increasingly important in the concrete calculation of the capitalist (Toms, 2010, p. 217).

In other words, in light of fictitious capital, the evaluation of what is currently produced, and therefore the way social labor is allocated and value generated, results from the way the capitalist class as a whole considers the perspective of the profit of these enterprises, and such perspectives are objectively consolidated in the financial market. Accordingly, values and prices shape the dynamics by which prices, formed in the financial markets, command social labor - thus the value generation process[21] -, which in turn may or may not guarantee the validation of capitalist wealth in the form of financial assets during the economic dynamics "post festum" - this expression is used by Marx (1857-58, p. 108) in the context of social validation of a given commodity. Put simply, with the development of capitalist relationships, the prices formed in the financial markets become the parameter for the productive process, where exploitation of the labor force effectively takes place.

In effect, according to Brunhoff (1990, p. 187), with fictitious capital "[...] financial revenues regulate the evaluation of all other receipts". Such a pricing process, therefore, fits the prominently financial criteria about the expectations of the capacity to generate revenue and respond to fluctuations in the interest rate, revealing its relative autonomy in the economic structure. In this vein, fictitious capital redefines the forms of allocating social wealth, which now refers to the way the applications are represented in the financial markets. Thereby, the instability typical of these markets becomes inherent to the process of allocating social labor, subject to constant changes when evaluating fictitious capital.

The expansion of fictitious capital reinforces capitalism as a system for the accumulation of wealth in its abstract form and is closely related to the liquidity of the forms of private wealth, taken as the capacity to transform such forms of wealth into money without losing value[22]. The typical liquidity of financial capital permits systematic pricing, commensurability, and thus the exchange of expected income flows capitalized at the benchmark interest rate, and, therefore, enables the individual capitalist to evaluate the fictitious forms of wealth at every moment in time, virtually instantaneously, through the capitalization expressed in the form of securities[23]. According to Sotiropoulos et

[21] Though in a different theoretical context - here, the "problem" of transformation -, the idea that values and prices determine one another, in a real temporal process, is the distinctive trait of the Temporal Single-System Interpretation of Marx's theory of value (TSSI). For more on this approach see Borges Neto (1997) and Kliman (2007).
[22] Keynes (1936, p. 135) also highlights the relevance of the liquidity of private wealth when it assumes the form of financial assets: "in the absence of security markets, there is no object in frequently attempting to revalue an investment to which we are committed. But the Stock Exchange revalues many investments every day and the revaluations give a frequent opportunity to the individual (though not to the community as a whole) to revise his commitments. It is as though a farmer, having tapped his barometer after breakfast, could decide to remove his capital from the farming business between 10 and 11 in the morning and reconsider whether he should return to it later in the week". For a Marxist perspective on the topic see Pinto (1994; 1998; 2009).
[23] For more on intangible assets as fictitious capital see Serfati (2008, p. 47-48)

al. (2013, p. 140), “[t]he liquidity of these markets indicates the ever-lasting process of present value assessment”. In this context, Harvey (1982, p. 278) correctly gives that “[the m]arkets for fictitious capital provide ways to coordinate the coordinating force in capitalist society”.

Accordingly, the conditions for the compensation of the capital at distinct times and places such as those represented by the financial markets are compatible and, therefore, offer the individual capitalist the chance to not only carry out an objective evaluation of their wealth, but also, due to the liquidity of the financial market, to change its composition to guarantee what he might consider adequate risk-return. In the financial markets in general and stock exchange in particular, the set of activities that comprise the possible applications of wealth are immediately comparable in the prices of securities negotiated, and quickly convertible among each other:

> **The equality of all capital is thus realized by its being valued according to its yield**. But it is only realized, like all capital which is given a value in this way, on the stock exchange, the market for capitalized titles to interest (fictitious capital) (Hilferding, 1910, p. 141, emphasis added).

In this context, fictitious capital imposes a change in the way capitalist wealth is managed. Through fictitious capital, the concrete and qualitative diversity of the economic activities is effectively converted into financial markets where diversity is quantitative in the prices of securities. Commensurability between the various specific modalities of application differs from the equivalence between commodities, as simple commodities, not capital. In a traditional Marxist perspective, it is correct to state that the price of a commodity is the monetary expression of its value, moreover the price of a given fictitious capital corresponds to the monetary expression of the capital-value, which considers future income measured at the present value at a given moment just as it is manifested in the contrasting capitalist expectations. Put differently, the monetary expression of fictitious capital is the price that results from the evaluation capitalists make of a flow of income they may earn from it.

Therefore, commensurability, here, is very precise: capitalist commensurability, i.e. the equivalence among the private investment, with the objective of valorization. The price of fictitious capital incorporates risk-adjusted expected income flows. Thus, it is not about considering value as it is, a reflection of given production conditions, but rather as a reflection of the possible increase in value, that is, its prospective profitability at a given level of risk. Accordingly, the price of fictitious capital appears as a socially accepted objective measure of the potential to produce future wealth at a given moment in time.

As the forms of wealth become more abstract, the capitalist sees the managerial control he once had fading. In exchange, he gains control of an even greater part of the social capital in the form of financial assets. As Pinto (2009, p. 74) suggests, such a process is related to the fact that financial assets comprise an increasing share of the capitalist wealth, which turn their market into a central locus of competition, therefore the "dominating mechanism for the capitalist distribution". By capitalizing the future income of the enterprises and redistributing revenue adjusted by risk among capitalists, fictitious capital reinforces the associative character of capital, as highlighted by Belluzzo (2012, p. 103) when interpreting Marx. In this vein, the development of fictitious capital changes the way to manage wealth and leads to capitalist socialization, which substitutes the diffused and fragmented control of productive resources for centralized capital:

> Capital, [...] now receives the form of social capital (capital of directly associated individuals) in contrast to private capital, and its enterprises appear as social enterprises as opposed to private ones. This is the abolition of capital as private property within the confines of the capitalist mode of production itself (Marx, 1894, p. 567).

Such a process concretizes the picture Marx (1984, chap. 9) portrays when dealing with t value-production price relation in which individual capitalists in different branches earn as if they were shareholders of the global capital of society. In this context, Bryer (1994, p. 316 emphasis in original) considers that the most common mistake when interpreting Capital is to not perceive Marx's evaluation that the period dominated by individual capitalists was being substituted by social capital, or the "investors capitalism", in which "[b]y holding fully-diversified portfolios, **all** investors ('capitalists') own **all** firms". Accordingly, by establishing the "collectivization" of the process of valorizing capital, fictitious capital lets the capitalist play the role of shareholder of the mass of total capital in society "[...] a mere money capitalist" (Marx, 1894, p. 567) to whom compensation appears as the interest on their capital, whether from dividends, profits or interest itself.

Therefore, the capitalist control of the productive resources is mediated by the concrete forms of fictitious capital - for example, stocks, debentures, and derivatives[24]. Fictitious capital is an indicator of the process of allocating social labor and therefore of the capitalist control over the production conditions. In other words, the allocation of social work becomes conditioned by the prices formed in the financial markets. Finally, the process of creating value becomes subordinated to the movement of wealth in its financial form. Therefore, it is possible to argue that finance dominates production. The process of creating value is now subordinated to finance - not as a parasite, but as a constituent part, needed in the development of the form-value[25].

[24] The authors of this paper have different views on whether derivatives are fictitious capital or not: while Palludeto (2016) holds that derivatives are fictitious capital, an alternative view of derivatives as an additional dimension of the capitalist system can be found in Carneiro et al. (2015).

[25] Therefore, it seems unjustifiable to consider fictitious capital as a form of speculative and parasite capital as Carcanholo and Sabadini (2009) suggest. If we want to suggest an intelligible expression for a class that is economically based upon the exploitation of another class nowadays, then it would be enough to call it capitalist.

Final Remarks

The aim of this paper was to provide an interpretation of the Marxist category of fictitious capital and highlight its relevance in understanding the capitalist dynamic from a form-value approach. In particular, fictitious capital is presented as a logic-genetic development of interest-bearing capital and it is suggested that it be defined based on three key-attributes: future income, secondary markets, and the inexistent of real.

Initially, we asserted that an expressive part of the Marxist literature seems to use the concept imprecisely and, thus incorrectly. Particularly by characterizing fictitious capital as a category in which its capital-value, whilst fictitious, results from the degree of distance or proximity between its value and the value of the real capital it eventually represents. In opposition to these interpretations, it has been argued that the representation - or not - of real capital is irrelevant to its definition and that the variation of its value does not make it more or less fictitious. Such a critique is initially elaborated by reconstructing the concept considering the dialectic development of the value-form as the main connector of the categories as elaborated by Marx.

In this context, fictitious capital is an unfolding of the interest-bearing capital and trails the inverse path of the latter, that is, if in interest-bearing capital the amount of money provides the right to a flow of future income (interest), the former presumes the opposite: the flow of future income also provides the right to money (capital) in the present. Accordingly, the constitution of fictitious capital essentially has to do with turning flows of future income into a commodity, a capital-commodity. Therefore, fictitious capital is a transactional contractual right to a flow of future income and can be defined by three key-attributes: future income, secondary markets, and the real nonexistence.

Once we defined the concept, it was argued that fictitious capital redefines its preceding categories, given that in Capital the exposition of the more complex-concrete categories from the most simple-abstract ones changes the meaning of the latter. In this vein, fictitious capital is central to understanding Marx's work, which reorganizes the comprehension of the capitalist dynamics and, consequently, of the process of allocating social labor. Fictitious capital shapes the capitalist calculation by incorporating capitalization as a core principle both in the evaluation of the existing wealth and in the development of new enterprises. Therefore, the challenge of transforming values into prices must be reconsidered, given that the pricing of capital is redefined in light of fictitious capital.

Additionally, fictitious capital paves the way for the autonomization of the creation of (fictitious) capital-values in the capitalist system and imposes a change in the way private wealth is managed. It becomes increasingly fluid and, simultaneously, commensurable so that the multiple possible applications of capital can be immediately comparable on the financial markets. In this context, at the same time as fictitious capital grants flexibility to the reproduction of capital, thus amplifying the capacity for accumulation, it also enhances the instability of the system by giving way, in the financial markets, to the accelerated reversion of expectations, to speculation, and to the consequent recomposition of wealth in its financial form. Finally, this paper points to (the need for) new studies about this concept, which is a powerful tool to understand contemporary capitalism and, moreover to assess the role of finance in capitalism.

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