

# Marx's fictitious capital: a misrepresented category revisited

Alex Wilhans Antonio Palludeto<sup>Ⓞ</sup> and Pedro Rossi<sup>★</sup><sup>Ⓞ</sup>

In this paper, we provide an interpretation of Marx's category of fictitious capital by analysing its main attributes and pointing out its role in understanding the capitalist dynamics from a value-form approach. We criticise the widespread notion that fictitious capital is a category related to the degree of detachment between its capital value and the value of the real capital that it might eventually represent. We argue that fictitious capital should be defined by three key attributes: the future flow of income, the secondary market and its 'real nonexistence'. Fictitious capital is therefore presented as the genetic development of interest-bearing capital, a process in which any expected money income is converted into a capital value in the present and transformed into a commodity. In this perspective, the importance of fictitious capital for the understanding of contemporary capitalism is analysed, particularly with respect to the process of the distribution of social labour.

*Key words:* Fictitious capital; Interest-bearing capital; Value-form; Social labour; Marx

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## 1. Introduction

The role of finance in contemporary capitalism has been an important research topic in the tradition of Marx's critique of political economy. Indeed, several recent contributions demonstrate the vitality of the Marxist-inspired literature on capitalist finance in the last few years.<sup>1</sup> The theoretical relevance of this focus becomes especially evident when taking into account that finance is one of the least systematically developed economic issues in Marx's writings. His main findings on this subject are fragmented into a series of research manuscripts and drafts from the period between the mid-1860s and the late-1870s, many of which (written in 1864–65) were published posthumously by Engels in Volume III of *Capital* in 1894 (Heinrich, 2016). The unfinished nature of Marx's writings indicates that he was well aware of the significant institutional changes

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*Address for correspondence:* Alex Wilhans Antonio Palludeto, Institute of Economics, State University of Campinas, 353 Pitágoras St, Campinas, Brazil; email: [alexwap@unicamp.br](mailto:alexwap@unicamp.br)

<sup>Ⓞ</sup>Institute of Economics, State University of Campinas, Campinas, Brazil (AWAP, PR)

<sup>1</sup> The works of Brunhoff et al. (2006), Durand (2017), Chesnais (2016), Guttman (2016), Lapavistas (2013) and Sotiropoulos et al. (2013) are just a few examples of the rich literature on the subject.

that advanced capitalist countries were experiencing in the last quarter of 19th century, particularly concerning the role of finance, and of the need to revise his works to apprehend these transformations theoretically (Paula et al., 2016). At the same time, the stage in which Marx's main drafts of 1864–65 on capitalist finance were left, and later published in Volume III of *Capital*, poses an important challenge to those who, following his footsteps, seek to develop it systematically. The category of fictitious capital is a clear example of this situation. 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'.

Since Marx (1864–65) considers stocks, public and private bonds, securities in general as typical forms of fictitious capital, widespread agreement between Marxist scholars about the variety of forms through which fictitious capital manifests itself can be noted. However, the same cannot be said about the identification of the main attributes of fictitious capital and what role it plays in capitalist economic dynamics. As Freeman notes, fictitious capital appears as 'arguably the most abused of Marx's multiply-misrepresented categories' (2012, p. 185).

In this paper, we present an interpretation of Marx's category of fictitious capital from a value-form approach, starting with its main attributes and pointing to its relevance in comprehending the capitalist dynamics. The section that follows provides a brief overview of recent interpretations of fictitious capital in the Marxist tradition. The third section presents an attempt to reconstruct the category of fictitious capital as a result of the conceptual development of interest-bearing capital in light of the systematic dialectical exposition that Marx's *Capital* presents.<sup>2</sup> In the fourth section, we propose a conceptualisation of fictitious capital through a consideration of three key attributes: the future flow of income, the secondary market and its 'real nonexistence'. Finally, the fifth section explores how fictitious capital redefines the previously posited categories in Marx's theoretical structure and codetermines the distribution of social labour. Brief final remarks close the paper.

## 2. Fictitious capital in Marxist political economy: a brief overview

Several contributions to the literature on fictitious capital appear to consider it a category related to the degree of detachment between its capital value, as expressed in the market price of the securities, and the value of the real capital that it might eventually represent—defined as the value of commodity capital and productive capital, i.e., the capital value in the form of labour-power and means of production. An emblematic example of this perspective is found in Foley (1991, p. 116, emphasis added) when regarding shares as a specific form of fictitious capital:

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.*

For Foley (1991), and as Pinto (1994; 1998) notes, fictitious capital is only the 'excess' or difference in value between the stock and the labour-power and means of

<sup>2</sup> In this paper, we will use the expressions "genesis" and "genetic development" as a reference to this conceptual development. See also Belluzzo (2012) and Rubin (1928).

production it represents.<sup>3</sup> Consequently, by considering a public bond to be fictitious, as Marx (1864–65) does, Foley argues that it is, in its entirety, fictitious capital 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). Mollo seems to share this broad conception and associates fictitious capital with the ultimate destination of monetary resources initially exchanged for securities (2013). According to the author, 'an initial offering of shares would not necessarily be considered fictitious capital' (Mollo, 2013, p. 222). Thus, 'fictitious capital is fictitious because it is not effectively associated with capitalist production and the creation of surplus value' in the sense of the destination of the resources (Mollo, 2013, p. 221). Like Foley (1991), the author seems to suggest the existence of a scale related to the criteria aforementioned to measure the degree to which a particular security is or is not fictitious capital.

A similar perspective on fictitious capital seems to be held by David Harvey (1982), who argues that fictitious capital is, in brief, 'money that is thrown into circulation as capital without *any material basis in commodities or productive activity*' (p. 95, emphasis added). Thus, if a sum of money circulates as capital and is not backed by already existing commodities or commodity production, this capital is, according to this interpretation, fictitious.

The identification of fictitious capital with the degree to which a given capital value corresponds to the value of the commodities also appears in the entry for the topic in the *Marxists Internet Archive's Encyclopaedia of Marxism*:

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

Carcanholo and Sabadini (2009) also seem to define fictitious capital as based on the value of the capital it represents. According to the authors, the reason why this kind of capital is fictitious lies:

[...] 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 nor commercial capital (Carcanholo and Sabadini, 2009, p. 43; our translation).

Additionally, the authors argue that when the value of a stock is a mere duplicate of the value of the real capital it represents, then it must be considered Type 1 fictitious capital. When, however, the capital value of this stock exceeds the capital value in the form of labour-power and means of production it represents, it should be considered Type 2 fictitious capital. In this case, the authors classify all 'speculative valorisation' of 'real' or 'financial assets' as Type 2 fictitious capital (Carcanholo and Sabadini 2009, p. 45). This interpretation thus also presupposes a scale related to the degree of detachment from real capital by which the fictitious capital can be defined.<sup>4</sup>

<sup>3</sup> The same argument appears in another of Foley's 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).

<sup>4</sup> According to the authors, the magnitude that Type 2 fictitious capital has reached in the past few decades reveals the speculative nature 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 related to a speculative dynamic, and, on the other, to the lack of contribution to the productive process. See also Carcanholo and Nakatani (2019) and Mello and Sabadini (2019). It should be noted that these latter authors are critical of Foley's definition of fictitious capital, despite, in our view, adopting a particular version of the same argument.

In contrast, in the sections that follow, we argue that the meaning of fictitious capital must not be reduced to the extent that its capital value is ‘detached’ from the value of the capital effectively invested in the production process. As Milios (2019, p. 123) highlights, fictitious capital is 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.’ As we will try to demonstrate in the following sections, fictitious capital does not refer to a possible detachment from real capital, but to a process in which the concrete conditions of production and appropriation of value and surplus-value are effectively abstracted and assume the form of a negotiable thing ‘in a culminating moment of fetish’ (Braga and Mazzucchelli, 1981, p. 61, our translation).

### 3. From interest-bearing capital to fictitious capital: the genesis of a category

Marx’s *Capital* in its three volumes can be conceived as a unique and unfinished systematic dialectical presentation of the capitalist system as a complex totality (Reuten, 1998, 2019; Arthur, 2004, 2008; Bellofiore, 2009; Murray, 2016). Marx’s *Capital* as a whole seeks ‘to present the internal organisation of the capitalist mode of production in its ideal average’ (1864–65, p. 898), reproducing it through a conceptual development in which the more concrete-complex categories are dialectically unfolded from the more abstract-simple categories,<sup>5</sup> beginning with the commodity—as ‘the economic cell-form’ of bourgeois society (Marx, 1890, p. 90).<sup>6</sup> At the same time, this dialectical presentation shows that for every stage of conceptual development to a more concrete-complex category, the meaning of the preceding categories is redefined. As Bellofiore argues:

There are, then, in *Capital* many conceptual conversions or ‘transformations’. *The comprehension of the (more complex and) concrete informs the (simpler and) abstract.* So, for example, the categories of Volume 1 are not ‘final’, in a sense each of them must be re-read in the light of the further development of the argument (2009, p. 180, emphasis in original).<sup>7</sup>

When considering the legacy of Hegel’s *Science of Logic* in Marx’s exposition of interest-bearing capital in the *Grundrisse*, Meaney highlights the method that also could be regarded as the framework of Marx’s *Capital* 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*

<sup>5</sup> The category is not a simple analytical instrument but a mental reproduction of the forms of being of specific social relations at a given level of abstraction. As Marx argues (1857–58, p. 106), the categories express ‘forms of being’ or ‘characteristics of existence’ of social relations.

<sup>6</sup> See, for instance, Arthur (2004), Banaji (1979), Fineschi (2001) and Murray (2016).

<sup>7</sup> Similarly, Arthur argues that ‘in a dialectical argument the meanings of concepts undergo shifts because the significance of any element in the total picture cannot be concretely defined at the outset [...] as the presentation of the system advances to more complex, and concrete, relationships the originating definition of a concept shifts accordingly, normally towards greater determinateness. Instead of foreclosing on reality, the dialectical method remains open to fundamental reorganisations of the material thus far appropriated, as it gets closer to the truth of things’ (2004, p. 25).

*in fact transformed since they are now parts of or elements in a greater whole within the systematic exposition* (2014, p. 60, emphasis added).

Thus, the meaning of a particular category is not independent of the totality in which it is presented nor thus is it independent of the position it occupies to the remaining categories. Specifically, the process of reproducing capitalist reality as an intelligible totality depends on the constant rearranging of the categories by which it is constituted as an increasing rich 'structure of mutual presupposition' in a spiral, as Murray (2016, p. 338) argues, or a 'circle of presupposition-posit', as Bellofiore (2009, p. 180) puts it. For example, the commodity, as the generalised social form of the product of labour in capitalist society, which constitutes the starting point of Marx's *Capital*, presupposes the whole series of categories that unfold from it. In fact, in the course of Marx's dialectical systematic exposition of Part One and Two of *Capital* (Volume I), money unfolds from the commodity and capital unfolds from money, which are presuppositions for the very existence of the commodity as such. However, when capital is dialectically unfolded from money, money does not only function as money but also as potential capital. At the same time, the commodities are no longer presented as products of individual commodity producers in the simple circulation of commodities, but as products of capitals (Bellofiore, 2009; Murray, 2016). Thus, the more concrete-complex category not only unfolds from the more abstract-simple, it also reveals new determinations to the set of already reached categories, modifying their meaning. For Belluzo (2012), as one category dialectically unfolds from another in the course of the exposition, it affects retroactively the categories that preceded it and thus subordinates it from the point of view of the capitalist totality.

The succession of economic categories in Marx's *Capital* cannot, therefore, be reduced to a purely deductive exposition or a 'successive approximation' of reality, nor is it determined by the sequence of historical events.<sup>8</sup>

Based on this approach, the genetic development of more concrete-complex categories, such as interest-bearing capital and fictitious capital, enriches the totality under consideration. According to Perelman (1987, p. 191), as the introduction of new categories modifies the meaning of more abstract-simple categories, 'the category of fictitious capital represents an important addition to Marx's overall system of analysis.' Consequently, attention must be paid to the genesis of fictitious capital, to its main attributes, and to the role it plays in the global process of capital accumulation.

We now briefly explore how the fictitious capital represents a conceptual advancement of the value-form, starting with interest-bearing capital. With the

<sup>8</sup> As Marx argues in his 'Introduction' from 1857: 'It would therefore be unfeasible and wrong to let the economic categories follow one another in the same sequence as that in which they were historically decisive. Their sequence is determined, rather, by their relation to one another in modern bourgeois society' (1857–58, p. 107). However, this does not imply that Marx's presentation in *Capital* is a simple application of some kind of abstract 'ready-made system of logic' (Marx, 1858, p. 261). According to Murray (2016), the systematic dialectical presentation of Marx's *Capital* presupposes certain natural and historical conditions and is informed by the historical dynamics posited by the capitalist mode of production itself. At the same time 'the systematic dialectic of *Capital* tells us not only what the capitalist mode of production is but points where it is going' (2016, p. 113). For example, when Marx (1864–65) presents the development of the credit system and the joint-stock company as a typical form of capitalist enterprise, he points to tendencies that only consolidated over time, 'becoming necessary' to the internal structure of the capitalist system, as Reuten (2019, p. 621) argues.

development of the credit system and the interest-bearing capital that is involved in it, any sum of money,<sup>9</sup> as capital *in potentia*, is considered capable of generating money income for its owner in the form of interest. The interest, accordingly, appears as an inherent attribute of a given sum of money as capital that belongs to the capitalist as the mere owner of capital, ‘while industrial or commercial profit, on the other hand, appears as a special kind of income that depends on the function of capital or capitalist’ (Krätke, 2001, p. 80). Therefore, and as Marx highlights, the necessary mediation of the process of valorisation disappears with the interest-bearing capital (1864–65, p. 767). The remuneration of loaned money as capital becomes the benchmark from which the capitalist evaluates the allocation of their capital. In fact, the interest rate becomes a presupposition for capitalist calculation.<sup>10</sup> Thus, interest-bearing capital redefines the dynamics of industrial and merchant capital and, therefore, the proper dynamics of the whole capitalist reproduction process in a given context.

If the interest-bearing capital implies that a sum of money as capital enables its owner to obtain a flow of future income as interest, any money income could be taken as derived from a sum of money as capital, in the present. As Marx highlights:

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 (1864–65, p. 556, emphasis in original).

Marx (1864–65) therefore suggests that, on the basis of the capitalist mode of production, any income flow appears as interest on capital, even if this capital does not exist as such.<sup>11</sup> Thus, the present value of any money income constitutes a capital value. The formation of fictitious capital is precisely the conversion of a flow of future income into a given capital value in the present as an ownership title. Thus, fictitious capital results from the genetic development of interest-bearing capital.

<sup>9</sup> ‘[I].e., money taken as the *independent expression* of a sum of value, whether this actually exists in money or in commodities’ (Marx, 1864–65, p. 286, emphasis in original).

<sup>10</sup> ‘It becomes a general property of any sum of money of £ 100 that it will yield 2, 3, or 5 percent. The average profit does not appear as a directly given fact, but rather as the average result of an equalisation of the oscillations between contradictory tendencies. With the interest rate it is different. It is in its *universality* a fact which is fixed every day, a fact which even serves industrial and mercantile capital as a presupposition and an item in their operating calculations. Meteorological reports do not show the level of the barometer and thermometer any more precisely than stock-market reports show the level of the interest rate [...]’ (Marx, 1864–65, p. 471, emphasis in original).

<sup>11</sup> According to Marx, ‘interest-bearing capital always being the mother of every insane form’ (1864–65, p. 557). With interest-bearing capital and fictitious capital, Marx highlights the absurdity of the ‘capitalist’s way of conceiving things’ in which the wage is taken as interest that belongs to the owner of the labour-capacity conceived as capital (p. 558). The same process takes place in the case of land: ‘Ground-rent presents the appearance of a certain sum of money that the landowner draws each year from leasing out a piece of the earth. We have already seen how any particular money income can be capitalised, i.e., can be considered as the interest on an imaginary capital. If the average interest is five percent, for example, an annual ground-rent of £200 may be viewed as the interest on a capital of £4,000. It is the ground-rent as capitalised in this way that forms the purchase price or value of the land’ (p. 721). Additionally, both can give rise to tradable claims in financial markets, for example, through the securitisation of workers’ debts and mortgages.

#### 4. Fictitious capital: definition and key attributes

Fictitious capital can be understood as capital value in the form of a tradable claim on a future flow of income. Therefore, three main attributes define fictitious capital: the future flow of income, the existence of secondary markets and its 'real nonexistence'.

##### 4.1. Future flow of income

The formation of fictitious capital is the capitalisation of an expected flow of income at the conventionally accepted benchmark rate: 'The formation of *fictitious capital* is known as *capitalisation*' (Marx, 1864–65, p. 558, emphasis in original). Put differently, fictitious capital corresponds to the present value of an expected future income flow. As Marx argues '[a]ny regular, periodic income can be capitalised by reckoning it up, on the basis of the average rate of interest, as the *amount* that a capital lent out at this interest rate would yield' (1864–65, p. 558, emphasis in original). The presence of a benchmark interest rate in the process of capitalisation shows that 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.

The constitution of fictitious capital results from the transformation of future income flows into a commodity (Krätke, 2001). Fictitious capital, therefore, represents an additional ontological step in the process of the commodification that marks capitalism. The interest-bearing capital represents the commodification of money as capital, and the fictitious capital represents the commodification of future income flows as capital. According to Michael Hudson (2010), the flow of future income is like economic 'prey' fated to be hunted in the financial markets, the central arena for the capitalist competition. That is, every source of prospective income presents the opportunity to constitute fictitious capital and, therefore, the possibility of the formation of a market where the rights for future incomes are traded (Cooper, 2015).

The relationship between fictitious capital and real capital is complex since fictitious capital constitutes a claim not to the real capital it might represent, but to a future flow of income that might or might not be associated with real capital. Fictitious capital is a claim on future revenue, given the conventionally accepted benchmark rate. As argued by Hilferding (1910, p. 111):

In reality, it is not 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.

Thus, independent of the final destination of the monetary resources given in exchange for a security, the security is simply a tradable claim to future income, 'that may, or may not, be realised' (McNally, 2011, p. 154). Even if the price of a given share, i.e., the monetary expression of its capital value, moves in perfect synchronicity with the value of the real capital it represents, the capital value of this security would still be wholly illusory, i.e., a fictitious capital. As Marx notes:

In so far as the accumulation of these securities expresses an accumulation of railways, mines, etc., it expresses an expansion of the actual reproduction process, just as the expansion of a tax list on movable property, for example, indicates an expansion of this property itself. But as duplicates that can themselves be *exchanged as commodities*, and hence themselves circulate as *capital values*, they are illusory [...] (1864–65, pp. 566–567, emphasis in original).

Thus, it is wrong to treat fictitious capital as necessarily resulting from a ‘discrepancy’ between the capital value of a security and the capital value in the form of labour-power and means of production it represents. Even if such a ‘mismatch’ is recurrent, this is no reason to categorise only that difference as fictitious capital. Accordingly, the capital value of fictitious capital does not directly reflect the current conditions for the appropriation of surplus-value but rather is an evaluation of the capability of its owner to appropriate future money income constantly re-evaluated in light of the results obtained.

#### 4.2. *Secondary market*

The circulation of fictitious capital presupposes a secondary market where the process of capitalisation takes place in practice, and where its capital value is universally expressed. At the same time, it is the existence of secondary markets that explains the fact that fictitious capital has its own dynamics, i.e., it is a relatively autonomous form of capital.<sup>12</sup> For example, in the case of securities that are issued with a ‘face value’ or ‘par value’, such as Treasury bonds, the secondary market enables the systematic divergence between its ‘face’ and ‘market value’. This does not happen in a conventional credit operation since the capacity for generating income to the owner of this paper wealth is re-evaluated by all capitalists constantly and in real time.

Indeed, Marx (1864–65) highlights the possibility of transference as one of the relevant factors in his reflection on fictitious capital. When referring to public debt, Marx shows that, in contrast to a conventional credit operation, in a public bond market, ‘[t]he creditor cannot recall his capital from the debtor but can only sell his claim, his title of ownership’ (Marx, 1864–65, pp. 556–557). This is an illustration of the difference between interest-bearing capital and fictitious capital; unlike the latter, the former does not operate on the secondary markets. This does not mean, however, that conventional credit operations cannot be transformed into fictitious capital. Indeed, they do meet the first criterion of fictitious capital, its association with a future flow of income. They become fictitious capital when a secondary market for this kind of operation is created. The process in which conventional credit operations are turned into securities—or the simple transformation of the interest-bearing capital into fictitious capital—is known as securitisation.<sup>13</sup>

#### 4.3. *Real nonexistence*

Although fundamental, the two properties above—future income flow and the presence of secondary markets for rights to that income—are not enough to classify a form of capital as fictitious since those properties also become characteristic of real capital once interest-bearing capital and fictitious capital are posited. Real capital is a particular form that capital, as a social relation, assumes in its relationship with the

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

<sup>13</sup> In some developed capitalist countries, especially the United States, the process of securitisation has spread throughout various dimensions of social life. Student loans, for example, have been securitised, as well as mortgages and credit card debts that were packed and resold in the secondary markets. This process submits part of the future income of the students and households to transfer in the financial market. In this context, Martin (2002) highlights the ‘financialisation of daily life’ in the last few decades.



exploitation of labour, presented by Marx (1864–65) as commodity capital and productive capital. A machine, for instance, as a form of real capital, is also associated with future income and may be negotiated or resold on secondary markets, where its profit-generating capacity is evaluated based on capitalisation (Pinto, 1998). However, in this case, the future money income associated with the machine does not itself take the form of a mere ownership title that exists as a capital alongside the machine, and which is traded in a market where it becomes immediately interchangeable with any other based on its rate of return. In contrast, the final characteristic of fictitious capital stresses the purely financial nature of this form of capital.

Fictitious capital exists alongside real capital, it is not a component of it, and appears as a multiplication of capital values that correspond to the systematic transformation into commodities of future income flows (Krätke, 2001).

While interest-bearing capital obliterates the mediating productive process, which is the origin of valorisation, fictitious capital assumes an even more fetishised form.<sup>14</sup> Capital appears as a source of its own capacity for expansion since all money income appears as directly referring to original capital value. That is, the mediation process becomes invisible, and everything happens as if capital had never left its money form in the financial markets. Thus, fetishism assumes new shapes since capitalist wealth appears in the form of fictitious capital and is priced in a particular sphere, relatively independent of the production process. As Marx notes:

The independent movement of the *values* of these *ownership titles*, whether those of government bonds or those of shares, strengthens the illusion [*Schein*] that they constitute real capital besides the capital or claim to which they may give title. They become *commodities*, their prices having a specific movement and determination. (1864–65, p. 559, emphasis in original)

Furthermore, the creation of new capital value in the system also seems to gain autonomy with the commodification of future income flows. This commodification creates fictitious capital based on future expectations of any possible source of income.

The issuance of stocks, for instance, immediately originates fictitious capital by creating an ownership title that circulates as capital alongside the real capital it represents (Hilferding, 1910). Such capital value is nothing more than the present value of the flow of income to which the owner of the security is entitled to receive. The price of the stock is not determined as if it were the company's capital but rather as a capitalised quota of its future income. Accordingly, stocks should not be interpreted as part of 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 budget, whether they represent real capital or not. It is worth noting that, in this case, fictitious capital in the form of public bonds is neither more nor less fictitious than that in the form of stocks, as some of the authors above seem to suggest. Both are

<sup>14</sup> 'In this way, all connection with capital's actual process of valorisation is lost, right down to the last trace, confirming the notion that capital automatically valorises itself' (Marx, 1864–65, p. 558). In this sense, it is possible to consider that the fetishistic character of interest-bearing capital highlighted by Marx in the following excerpt is fully realised in fictitious capital: 'In interest-bearing capital, therefore, this *automatic fetish* is elaborated into its pure form, self-valorising value, money that makes (breeds) money, and in this form it no longer bears any marks of its origin. The social relation is consummated in the relationship of a thing (money) to itself. Instead of the *actual* transformation of money into capital, we have here only the form of this *devoid of content*' (1864–65, p. 493, emphasis in original).

claims to income, and both are formed, as capital value, by the capitalisation of a flow of future income.

Marx seems clear about this: ‘Even when the *promissory note*—the *security*—does not represent a purely *illusory* capital, as it does in the case of national debts, the *capital value* of this security is still a pure illusion’ (Marx, 1864–65, p. 596, emphasis in original). These securities ‘become nominal representatives of non-existent capitals’ (Marx, 1864–65, p. 566, emphasis in original). In other words, the capital value of a financial security, be it a stock or any other kind of security, whether it represent real capital or not, is illusory, entirely fictitious capital.<sup>15</sup>

The term fictitious, therefore, is neither related to the ‘excess’ of the capital value of this form of capital, when compared to the supposedly ‘fundamental’ value of the real capital it represents, nor is it related to the use of the resources acquired from the selling of the financial assets. It is fictitious capital in the sense that its capital value does not correspond to a previously given value and that it does not constitute a component of real capital. Following Marx:

These securities, however, if they are *government bonds* are capital only for the person who has bought them, to whom they represent his *purchase price*, the capital he has invested in them. They are not capital in themselves, but simply the claims of a creditor; if they are *mortgages*, they are simply claims on future rents, and if they are *stocks* of some other kind, they are simply property titles which give the holder a claim to the receipt of future surplus-value. None of these things is *capital*; they do not constitute any component of productive capital and are also in themselves not *values* (1864–65, p. 552, emphasis in original).

For the same reason, the dynamics of fictitious capital are relatively independent of the given conditions it represents—since fictitious capital is associated with expectations regarding, for example, the profits of the company, changes in interest rates, and the exchange rate, permanently revised based on current results. There could, for example, be an expansion in the capital value without an increase in real capital accumulation, i.e., *ceteris paribus*, without an increase in present surplus-value creation. Such expansion may occur purely as a result of the creation of new tradable claims on a future flow of income. As Marx 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 upon production’, and an accumulation of the market price (of the illusory capital value) of these claims (1864–65, p. 560; emphasis in original).

The following section sets out an exploratory analysis of some of the implications of fictitious capital in the distribution of the social labour.

## 5. Fictitious capital, the capitalist calculation, and distribution of social labour

As we have seen, for every new category in Marx’s theoretical structure, the preceding categories are redefined. As the interest-bearing capital category unfolds, the

<sup>15</sup> According to Corazza (2001, p. 52, our translation), ‘[f]ictitious is not the same as false, for the form capital, being the value that valorises 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.’

distribution of social labour in a given sector becomes dependent on the relationship between the net profit rate of that sector and the interest rate. Given that the individual capitalist can invest their monetary resources in production or obtain earnings from interest, the capitalist calculation incorporates the profit-interest comparison (Marx, 1864–65, pp. 479–480). The interest rate becomes a benchmark and thus a presupposition for capitalist calculation.

When fictitious capital is posited, the capitalist's calculation incorporates the possibility of the flow of a business's expected income to be converted into a present capital value traded on the financial markets. The basic point we seek to highlight here is that by objectively extending the principle of capitalisation to any expected flow of income that can be converted into tradable securities, fictitious capital informs the capitalist calculation. In doing so, the specific branches in which capital may be distributed are compared by evaluating their prospective return in the capital value of the ownership titles through the capitalisation that is present in the financial markets, where it acquires a relatively independent movement. This potentially guides the distribution of social labour.<sup>16</sup>

In this context, '[t]he valuation process carried out by financial markets has important consequences for the organization of capitalist power relations' (Sotiropoulos et al., 2013, p. 2).<sup>17</sup> The process of capitalisation can potentially include the whole socioeconomic environment, redefining the capitalist calculation and, therefore, the pricing mechanism. In the words of Paulani (2014, p. 791), capitalisation is promoted to a principle of capitalist calculation:

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, Marx suggests the relevance of evaluating the capacity of private wealth to generate future income in the capitalist calculation once interest-bearing capital is taken into account: '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' (1864–65, p. 459, emphasis in original). Therefore, the value of a machine, as capital, does not directly correspond to the labour-time socially required for its production as a commodity but to its capitalised expected money income based on a given interest rate. However, as highlighted in section 4.3, only in the form of fictitious capital does the flow of income associated with this machine circulate as capital alongside it as a mere ownership title, which is constantly re-evaluated by the capitalist class as a whole in the financial markets.

<sup>16</sup> This process appears in Hilferding (1910), for example, with the constitution of the promoter's profit.

<sup>17</sup> In the history of the capitalist system, there are many examples of this process, especially in moments of accelerated economic expansion followed by deep financial crises. The English 'railway mania' mentioned by Marx (1864–65); the rapid growth in the communication—mainly the radio—and the automobile sectors in the 1920s and 1930s; the accelerated expansion of optic fibres in the United States in the mid and late 1990s; and, more recently, the real estate expansion in several countries, all express the capitalisation and liquidation of these enterprises in the financial market through stocks and bonds. In every event, the crucial factor was the identification of all potential opportunities of capital accumulation based on the returns evaluated in the financial markets.

In other words, given the existence of fictitious capital, the capitalist evaluation of the various branches in which capital can be invested, and therefore the way social labour is distributed, and value generated and appropriated, results from the profit expectations of the capitalist class as a whole, as given in the financial markets. Put simply, the prices formed in the financial markets become a benchmark for the production process, where exploitation of the labour-power effectively takes place.

In effect, according to Brunhoff, with fictitious capital, ‘financial revenues regulate the evaluation of all other receipts’ (1990, p. 187). In this vein, fictitious capital re-defines the distribution of social labour, which now refers to the way investment opportunities are represented in the financial markets.<sup>18</sup> The instability typical of those markets and their relatively independent movement becomes inherent to the process of allocating social labour.

The expansion of fictitious capital reinforces capitalism as a system structured for the accumulation of social wealth in its abstract form, given the liquidity of financial markets.<sup>19</sup> This process enables the individual capitalist to evaluate, through capitalisation into the form of securities, any potential future flow of income at every moment and in real time. According to Sotiropoulos et al. (2013, p. 140), ‘[t]he liquidity of these markets indicates the everlasting process of present value assessment’. In this context, Harvey correctly states that the ‘[m]arkets for fictitious capital provide ways to co-ordinate the co-ordinating force in capitalist society’ (1982, p. 278).

In the financial markets in general and the stock exchange in particular, the set of activities that comprise the possible applications of capital can be immediately compared through the prices of securities negotiated, and each is quickly convertible to the 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 economic activities are effectively converted into a purely quantitative diversity. Commensurability between the various specific modalities of capital accumulation mediated by fictitious capital differs from the equivalence between commodities as such. The price of given fictitious capital is the monetary expression of its capital value. This expression includes future income measured at its present value as it is manifested in the expectations of the capitalist class as a whole, reassessed incessantly based on current results. Put differently, the monetary expression of fictitious capital is the price that results from the permanent evaluation capitalists make of a flow of income they may earn from it.

<sup>18</sup> Additionally, as highlighted by Bellofiore (2011) and Bellofiore and Halevi (2010), the performance standards imposed by financial markets on firms were associated with the increased indebtedness of the working class and its subordinate involvement in the stock exchange in recent decades. According to the authors, this process resulted in a ‘real subsumption of labour to finance’.

<sup>19</sup> Keynes (1936, p. 135) also highlights the relevance of the liquidity of private wealth in 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.’

Commensurability, here, is very precise: capitalist commensurability, i.e., the equivalence of private investments based on their prospective rates of return. The price of fictitious capital incorporates risk-adjusted expected income flows. Thus, it is not about considering value as it is, a representation of given production and distribution conditions, but rather as a representation of a possible increase in value, that is, its prospective profitability. Accordingly, the price of fictitious capital, its capital value, appears as the socially accepted objective measure of its potential to produce future income for its owner at a given moment in time, constantly re-evaluated based on current results.

As the forms of capitalist wealth become more abstract, the capitalists see the direct managerial control they once had fading. In exchange, the capitalists gain control of an even greater part of the social capital in the form of financial assets. As Pinto (2009) suggests, such a process is related to the fact that financial assets comprise an increasing share of capitalist wealth, which turns the markets for these assets into a central locus of competition. Fictitious capital, in capitalising the future income of enterprises and allowing the redistribution of risk-adjusted revenue among capitalists, reinforces the associative character of capital highlighted by Belluzzo (2012). The development of fictitious capital changes the composition and management of capitalist wealth and leads to the socialisation of capital:

Capital [...] now receives the form of *social capital* (capital of directly associated individuals) as opposed to *private capital*, and its enterprises appear as social enterprises as opposed to private ones. This is the abolition [*Aufhebung*] of capital as private property *within* the confines of the capitalist mode of production itself. (Marx, 1864–65, p. 536, emphasis in original)

The process of socialisation concretises the picture that Marx (1864–65, p. 270) portrays when dealing with the value-production price relation, in which individual capitalists in different branches are remunerated as if they were shareholders of the total social capital. In this regard, Bryer considers that the most common mistake when interpreting *Capital* is not to perceive Marx's evaluation that the period dominated by individual capitalists was being replaced by the age of social capital, or the 'investors capitalism', in which '[b]y holding fully-diversified portfolios, *all* investors ("capitalists") own *all* firms' (Bryer, 1994, p. 316 emphasis in original). By establishing the 'capitalist collectivisation' of the process of valorisation, fictitious capital converts the individual capitalists into shareholders of total social capital, for whom compensation appears as the interest on their capital, whether from dividends, profits or interest. As Marx highlights, with the development of joint-stock companies, there is '[t]he transformation of the actually *functioning capitalists* into *mere managers* (of other people's capital) and of the *owners of capital* into mere property-owners, mere *moneyed capitalists*' (1864–65, p. 536, emphasis in original).

The capitalist control of productive resources is mediated by the concrete forms of fictitious capital—for example, stocks, bonds, debentures and derivatives. Fictitious capital is a social form that mediates the process of allocating social labour and, therefore, capitalist control over it. In other words, the distribution of social labour becomes conditioned by the prices established in the financial markets. Finally, the process of creating and appropriating value and surplus-value becomes subordinated to the movement of capitalist wealth in its financial form. It is possible, therefore, to argue that finance dominates production. The process of value and surplus-value creation

and distribution is now subordinated to fictitious capital—not as a simple parasite but as a constitutive part of it, a genetic development of the value-form.<sup>20</sup>

### *Final remarks*

This paper seeks to contribute to the tradition of Marx's critique of political economy by proposing a more systematic account of fictitious capital and its role in capitalist dynamics. Accordingly, the paper dialogues with the literature on this issue and presents a critique of a common approach to fictitious capital as a category in which its capital value, while fictitious, results from the degree of detachment between its capital value and the value of the real capital it eventually represents. Finally, this paper reaffirms the importance of fictitious capital as a fundamental theoretical category for the interpretation of contemporary capitalism. The literature on financialisation points to the need for new studies on the role of fictitious capital. In particular, fictitious capital is presented as a genetic development of interest-bearing capital, and it is suggested that it should be defined based on three key attributes: the associated future income, the presence of secondary markets and its 'real nonexistence'.

Fictitious capital shapes the capitalist calculation by incorporating capitalisation as a core principle both in the evaluation of existing investment opportunities and in the development of new enterprises. Therefore, fictitious capital is a constitutive element in the distribution of social labour. In this context, at the same time as fictitious capital brings flexibility to the reproduction of capital, it also amplifies the instability of the system.

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<sup>20</sup> Therefore, it is misleading to argue that fictitious capital is a form of parasitic speculative capital, as Carcanholo and Sabadini (2009) and Carcanholo and Nakatani (2019) have done.

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