

**Securities: The Purest Form of Abstract Wealth –  
A Re-evaluation of the Concept of 'Fictitious Capital'**

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**0. Introduction**

According to a widespread Marxist view, the trade in securities does not produce any wealth. Instead, securities represent mere paper claims to the wealth produced by the real economy. In Marxist terms: The wealth of securities is only claim to a share of the surplus-value. The trade in securities is therefore seen as a strain on the profits made by exploitation, which nowadays even bourgeois economists call „real economy“.

This Marxist definition of securities is based on a certain interpretation of Marx' analysis of credit in Capital vol. III. Here Marx names the wealth of securities „Fictitious Capital“ (FC). The term fictitious is commonly interpreted as implying, that securities are no real capital but just debts, which only appear as capital to its proprietor. The economic truth of this kind of wealth was, that it depended on and therefore was determined by the rate of exploitation in the so-called real economy.

This view regards the apparent fact that the wealth of securities exceeds the wealth advanced by exploitation as false appearance, because naturally the claim on shares of the surplus-value could not be higher than the surplus itself. The huge sums of wealth made in the securities trade is therefore seen as a fiction, a cheque, which could never be cashed by the real economy. This is the reason why many Marxists also speak of a bubble, of fantasy values, of make-believe wealth.

The speculators were acting as if they were trading in capital whereas what they really had were debts. And the crisis would reveal this economic truth to them: In the devaluation of their securities, the speculators would finally experience the fact, that their wealth was nothing but an over-exaggerated claim to the profits made in the productive sector. As Husson puts it: The loss of the wealth of securities is a long overdue „call to order by the law of value“.

I think that this is not only a false interpretation of Marx' account of fictitious capital, it is also a false explanation of the kind of wealth that securities represent. And finally it casts a far too flattering light on the so-called 'real economy'.

I claim, that the wealth represented by securities is as capitalistically real as it gets. In fact, securities represent the purpose and nature of capital in its purest form. I will prove this claim in three steps:

- (1) I will give a reminder, as to what the purpose and the nature of capitalist wealth actually is.
- (2) I will show that securities embody and fulfill that same purpose.
- (3) I will give an explanation of why Marx called this capital employed in the financial sector 'fictitious'.

## **1. The Nature and Purpose of Capitalist Wealth**

Let me first briefly recall what real wealth in capitalist societies is. Marx says that it is capital, an expanding sum of money. All material goods are produced solely for the aim to expand an advanced sum of money. Ok, one might think: I advance a sum of money, buy a workforce, resources and machinery, exploit my workers, sell the commodities and have in my hands a larger sum of money than I had in the beginning. Is this sum of money now real capitalist wealth?

According to Marx this sum is not necessarily capital. The result of the capitalist process is more money only in comparison to its starting point – viewed just for itself every profit earned falls back at being only a sum of money again, a sum waiting to be invested. In the words of Marx: “The final result of each separate cycle, in which a purpose and consequent sale are completed, forms the starting point for a new cycle.” (chapter 4) The expansion of capital has no limits. The purpose of capital is therefore never fulfilled and never finished. Capital is a process, it is the growth of the power to command all means of production. It results in the expanded possibility of accessing wealth in all its forms, but its purpose is to access it only in order to increase this power even further. Marx expresses this in a simple formula: M-C-Mplus. Businessmen express the same thing with their catchy phrase: “If you're not growing, you're dying.”

This power to get hold of all riches, this power of accessing all goods, this power of access, which is the aim of this mode of production is properly named „abstract wealth“, as there is no other use of this power, but to expand it further. All material riches, all goods, all labour, and all machines are being subdued to a means for the progress of this power to make more of itself. In the second volume of Capital, Marx characterises capital therefore adequately as an „abstraction in actu“, an abstraction in movement.

You don't need Marx to learn this nature and purpose of capitalist wealth, the current crisis teaches the same lesson: If factories and machines are no longer good for making a profit, they are shut down; if there is no need for workers to expand the advanced money, they get laid off. If the condition for the use of these “factors of production” is the profit of the business, then that is the purpose of work and all material wealth in this society.

That a whole sector uses labour for this kind of growth is not a reason to praise the so-called real economy, but to criticise it: Capital defines the purpose of labour and determines the use that is made of it. Labour is only employed and paid for, when it serves the increase of wealth in the hands of the employer. And it performs this service to the degree that the workers work a lot and get a little. This results in many hardships for those doing the work and absolute poverty for the ones useless for the production of profits.

## **2. The Wealth of Securities**

Keeping in mind what real wealth in capitalism is, let's now take a look at the wealth of securities. They are intended for the same purpose, as every other form of investment: To increase the invested sum of money for the purpose of its own further increase. And the securities trade achieves this result on a massive scale: The speculators make huge profits by buying and selling securities.

What is happening economically, when one party issues securities and another party buys them? On the one hand, we have a credit relation: one party owes the other. But it's also more than that: The credit relation including the anticipated future yield is being objectified within the issued security. It therefore represents a future stream of income and as such acts as an independent form of capital. This process, which Marx calls 'capitalisation', only takes place if an investor validates the security's embodiment of capitalist growth by purchasing it.

But if this purchase of the security is taking place, then the debt functions as an independent form of capital: It yields a return in abstract wealth, a growth in the power to stimulate further growth. It is therefore a form of the wealth of this society.

According to the Marxist view I am criticising, this wealth is not created by the trade in securities, but in the exploitation process and sooner or later, the exploitative sector has to fulfill those accumulated claims to its wealth. This view relies on Marx, who in one passage of chapter 29 vol III of Capital claims that securities are merely the representation of capital that is functioning elsewhere, that they are not an independent form of capital.

But elsewhere in the same chapter, he makes a contradictory claim, that the papers representing the invested capital take on a value of their own, independent from the capital that has been invested in them. And this value has a movement, it functions as a capital-value.

I think with these two seemingly contradictory explanations, Marx wants to stress that the capital represented by the security-papers is in no way bound to the value to which they represent legal claims. Think of stocks and bonds. Their value goes up and down all the time, irrespective of whether and how effectively the issuer of those stocks and bonds exploits labour. The expansion and contraction of the value of these securities are not a mere reflection of the movement of capital within a company, but have an existence of their own. So it is precisely the independence of the value of securities from the capital to which it lays legal claim that enables the securities to act as capital.

It is a peculiar economic truth that debts function as capital – the trade in securities can produce a surplus, just like the exploitation of labour, and independent of the degree to which labour is exploited.

### **3. Why 'Fictitious' Capital?**

So what does Marx' term 'FC' entail? I think the peculiar *source* of the increase of wealth achieved by the securities trade moved Marx to term financial capital *fictitious* capital: The source of its expansion of capital is the confidence of speculators in the ability of the issuer to vouch for its debts. The value of securities is the anticipation of profit objectified by the demand of the buyer of the security. In other words: Securities are made capital by speculators' confidence in the debt issuer's claim that his debts are capital.

Unlike hard-core exploitation, this kind of capital derives from the assessment of the buyer, from speculation, that is: from a fiction. But this fiction has a tangible existence, it is an economic act called “investment.” Just the fact that this wealth is derived from speculation, doesn't mean it is any less real.

The crisis therefore does not reveal that the securities have never been any capital, but instead show the source of the capital-value of securities: As soon as trading stops, all the commodities on the capital markets reveal themselves as not being capital at all but only debts. This doesn't mean, that they have been only debts all along. Securities yield a huge amount of value and what the current crisis shows is that the reason for their power to grow in value is the same as the reason for their devaluation. The investors' withdrawal of their confidence into the ability of the issuer to vouch for its debts reverses the process of capitalisation and reveals the securities as being just debts.

#### **4. Conclusion**

The term FC is usually seen as a form of fetishism: In the view of the speculators (e.g. the proprietors of shares) their credit-papers are as good as capital. Marxists do well in denouncing this as an absurdity: It is absurd to think that anticipated growth of money is able to generate this growth.

But it is wrong to take this absurdity merely as false appearance. What Marx really wanted to express with 'FC' is that this absurdity is objective: In securities, the anticipation of future growth is being objectified in a credit-paper, which can in itself act as a source of growing value. Non-existent, but anticipated capital can become a source of value, it can act as capital. The crisis shows the role of this kind of capital in our economy: It is not a negligible extension of the so-called real economy, but this superstructure of capitalism has in fact become it's ruler. This crisis shows that this kind of absurd wealth dominates the whole of capitalist economy. Do you remember how bourgeois economists stated that the credit sector was the lifeblood of capitalism? Taking the truth in this phrase, we now have to say: In developed capitalism the absurd fetishism of finance-capital, anticipated future growth acting as a source of growth, is the lifeblood of the economy. Either this fetishism works, or the whole of the economy lies in ruins.

This has also an effect on the workers. Not enough, that they are being exploited by the industrialists and merchants, that they have to work hard and long for as little pay as possible. That fact that they have a workplace at all is dependent on the speculation of traders on the capital markets. If the speculators lose faith in one business, it loses credit, eventually has to shut down and its employees lose their income. And if the speculators lose faith in their speculation on a massive scale and therefore stop validating their debts as capital, then this ruins the economy as a whole – with the income of the masses as its most dependent extension.

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