Title	Reconsideration on the concept of "fictitious capital"
Sub Title	
Author	赤川, 元章(Akagawa, Motoaki)
Publisher	
Publication year	1980
Jtitle	Keio business review Vol.17, (1980.) ,p.95- 114
JaLC DOI	
Abstract	
Notes	
Genre	Journal Article
URL	https://koara.lib.keio.ac.jp/xoonips/modules/xoonips/detail.php?koara_id=AA00260481-19800000-03920072

RECONSIDERATION ON THE CONCEPT OF "FICTITIOUS CAPITAL"

by
Motoaki Akagawa

I. Flow of Views and Marx

1. Views in retrospect

Regarding interpretation of the category of capital called "fictitious capital" (fiktives Kapital) very different attemps have been presented by many theorists up to the present. In our country even the Japanese version of this term is not unitary among translators and writers, quite diverse. A main reason for the diversity of views is, needless to say, that Karl Marx himself, who positively introduced this category into the composition of the *Capital*, vol. III, was multivocal in conceptional definition, in short of perfect systematization.

Accordingly, with this systematization being unfulfilled, in response to the new development of credit systems and joint-stock companies the concept of "fictitious capital" has been defined by theorists in various ways, which, I think, has resulted in the birth of all the more different views.

For example, Rudolf Hilferding, who played an epoch-making part in this field, in this *Financial Capital* used this category of capital mainly with respect to stock capital,[1] by which there was borne a tendency to interpret "fictitious capital" within a narrow bound of a capitalised title of claims on revenue.[2]

By the A Commentary on Capital of Rozenberg, D. I., however, "fictitious capital" in the *Capital* was reappreciated, being taken up in connection with the component parts of bank capital, and consideration was extended over a wider sphere including bills of exchange, bank notes, nominal deposit and so on.[3]

This reappraisal raised a problem how to define the character of *"fictitious capital"* on another hand, and many theorists came to develop particular views in relation with the theory of interest-bearing capital and of credit. That is, there appeared a view that positions "fictitious capital" as a problem of "fetishism and fiction-setting in the development series of value formation" and ultimately regards it as the "supreme fiction" of "the form of interest-bearing

1) Hilferding, R., *Das Finanzkapital*, Wien, 1910.
2) I. Kawai, *Kabushiki Kakaku Keisei no Riron* (The theory of price formation of stock capital), Nipponhyōronshinsha, 1960.
3) Rozenberg, D. I., A Commentary on Capital, (5) Japanese version by Soezima and Udaka, Aokishoten, 1964.

capital";[4] another view that stresses its character as capital, that is, it has some form that can be conceived as acquisition of "surplus value" and grasps it as "upper structure of interest-bearing capital and bank credit";[5] and still another view that divides it into what has been capitalised and others which are fiction-wise, and qualifies only the former as a peculiar "supreme credit form" combining it with the "credit form of loan capital."[6] In contrast with such tendencies in these views there were also attempts to weave "fictitious capital" in the system of economic theory. Here in the principles of economics constructed as a pure capitalistic society this capital category was settled as an Idee of "capital bearing interest by itself" at the end of capital definition.[7]

All these views take this category, Marx's "fictitious capital," as an *a priori* object, and then pursue the meaning of fiction in close relation with the financial instruments directly or indirectly created in the credit system such as bills, bank notes or interest-bearing securities.

However, inversely to such a method, if consideration were advanced presupposing such concrete instruments, how would the matter go? True in his theoretical structure Marx qualified "fictitious capital" as what builds the substance of these instruments, but this must not have been the sole one.

Why is such a question born? Let's explain it referring, for example, the national debt, one of the instruments mentioned by Marx, that is, typical one of "fictitious capital."

2. View of Marx

Marx says about the national debt:

"By means of these facts, even an accumulation of debts may appear as an accumulation of capital, the height of distorition taking place in the credit system becomes apparent. These promissary notes ... duplicate of consumed capital, serve for their owners as capital to the extent that they are saleable commodities and may, therefore, be reconverted into capital."[8]

And then he writes as follows:

(1) "... the capital, as whose offshoot (interest) state payments are considered, is illusory (illusorisch), fictitious capital (fiktives Kapital)."[9]

4) S. Iida, *Rishitsuki Shihon* (Capital bearing interest) Yūhikaku, 1959; ditto, *Rishitsuki Shihon no Riron* (The theory of capital bearing interest), Nippon-hyōronshinssa, 1954.
5) K. Fumoto, *Kin'yukeizai Ron* (Economic theory of money and credit), Nippon-hyōronshinsha, 1956.
6) T. Kotake, *Shōkenkeizai Ron* (The economic theory of securities), Keiogijuku-seikatukyodōkumiai, 1967.
7) K. Uno, *Keizai Genron* (Principles of economics), Iwanamishoten, 1950–52; ditto, *Keizaigaku Hōhōron* (Methods of economics), Tokyodaigakushuppankai, 1962.
8) Marx, K., *Das Kapital*, *Capital*, English edition by Progress Publisher, Moscow, vol. III, 1971, p. 477.
9) *Ibid.*, pp. 464–5.

(2) "Where no capital exists, as in the case of state debts, ... the price of these securities rises and falls inversely as the rate of interest.... Their value is always merely capitalised income (der kapitalisierte Ertrag), that is, the income calculated on the basis of a "fictitious capital" (ein illusorisches Kapital) at the prevailing rate of interest."[10]

(3) "We have seen that every particular sum of money may be capitalised, that is, considered as the interest on an imaginary capital (ein imaginäres Kapital)."[11]

What can be said about the national debt applies almost similarly for the stock capital.[12]

In such conceptional definition about securities a general point is that, by the development of credit systems, even paper duplicates, which are itself valueless, take the "illusion (Schein) of capital" and are formed as capital value[13] so long as they circulate in the form of merchandise.

However, it should be noted, Marx defined these securities using three adjectives of *fictitious*, *illusory* and *imaginary* (fiktiv, illusorisch, imaginär), and held that the manner of formation of such capital depends on "capitalisation."

In this regard I suspect if we can conceive that the definition of the concept in all is involved in "fictitious capital," as is seen with the above-mentioned theorists, and in this sense the meaning of fictitious is identical with that of illusory or imaginary.

And as to what does not take such form of capital Marx gave almost the same general definition with that for securities, saying:

"Objects that in themselves are no commodities, such as conscience, honour, & c, are capable of being offered for sale by their holders, and of thus acquiring, through their price, the form of commodities. Hence an object may have a price without having value. The price in that case is imaginary (imaginär), like certain quantities in mathematics."[14]

In short, whether Interest-bearing securities or conscience or honor, what circulates in the form of a commodity appears as what forms value or a price.

Reviewing these remarks of Marx it is considered that where these adjectives fictitious, illusory, or imaginary are used they represent a concept specified to the substance or formation of the value of something that does not make the object of abstract human labor when it circulates as a thing with value.

However, in the *Capital*, Vol. III. Pt. V Marx propounded "fictitious capital" in connection with credit as an independent chapter. True this Chapter 25 cast a difficult problem on the interpretation of the composition of Volume III, and

10) *Ibid.*, p. 467.
11) *Ibid.*, pp. 622–3.
12) *Ibid.*, pp. 477–8.
13) *Ibid.*, p. 465.
14) *Ibid.*, vol. I, p. 105.

this can be spoken of also with respect to the conceptional structure of "fictitious capital."[15]

Here Marx, relying on the contemporary literature of Britain, refers to the device by which "fictitious capital" is created concerning specific instruments of credit, and it appears that he stresses "this fraudulant procedure" of "fabricating fictitious capital," so called by Engels.[16]

Therefore, the substance of the value of "fictitious capital," as has been viewed in the above, is not yet consciously taken up. This problem is fully developed in Chapter 29, Component Parts of Bank Capital, and later.

Accordingly the "fictitious capital" by Marx seems to represent a concept summarizing all instruments created by the credit system, and to make a Moment to define the substance of securities which are capitalised among such instruments.

And assuming that all these came out of Marx's non-consolidation, why is it that he used such multilateral and multivocal structure of the concept? In his use of the definition *fiktiv, illusorish* and *imaginär* to the same object, what problem should we find? Clarification of this question may be rendered possible to some extent by reviewing the theories of his predecessors who supplied material for concept formation to him.

II. Formation of The Concept of Fiction in Money and Bills

1. Formation of the concept of fiction about money

As is well known it was in reference with formation of the form of money deriving from the necessity of the exchange process that Marx discussed the concept of "imaginary (imaginär) with respect to money value. His recognition developed there was that noble metals can be money on account of "social character"[17] attached to them. It may have been as a matter of course that Marx's predecessors, having a premonition on this point, had made various attempts about definition of money. The formation of the concept of fiction first derived from such attempts.

That great Aristotle discussed as follows in the *Politics*:

> "The value of money was simply measured by magnitude and weight but later on marks came to be pressed in order to save such worry, for they were to represent how much."

He thus stated that coins are made by putting certain marks about the weight of noble metals and defined that, "Money is considered as utterly meaningless; it is what has been set down by man, naturally nothing."[18]

It may not be so simple a matter to understand this definition "utterly

15) A. Ono, *Kakū Shihon* (Fictitious capital) in Shihonron Kōza (5), Aoki Shoten,
16) *Ibid.*, vol. III, p. 409.
17) *Capital*, vol. I, pp. 93–4.
18) Aristotle, *Politics*, Japanese version by M. Yamamoto, Iwanami Shoten, 1977, pp. 24–5.

meaningless." In its French translation quoted by J. A. Blanqui a word "*unbien imaginaire*" (imaginary assets) is adapted thereto.[19] The influence of this phrase of Aristotle on the money theory of later ages is hard to judge, but may be said to suggest a very interesting theme.

It was John Locke that in the modern age worked an epoch-making effect on later money theories by qualifying the substance of money as "an imaginary value." He says:

> "For mankind, having consented to put an imaginary value upon gold and silver, by reason of their durableness, scarcity, and not being very liable to be counterfeited, have made them, by general consent, the common pledges. . . ." Accordingly "by which means it comes to pass, that the intrinsic value, regarded in these metals, made the common barter, is nothing but the quantity which men give or receive of them."[20]

This is true a view specified by Marx as "the first crude form of opposition to the argument of mercantilism that gold and silver alone have real value,"[21] and it is characterized by that it mistakes "peculiar value form" which the exchange process gives to the money commodity for "value." This view of Locke to hold that "the value of gold and silver is imaginary"[22] and to grasp the ground of value formation as "general consent" was to seek a simple method of expressing value in the utility of money stuff.

This Locke's view invited a criticism by J. Law:

> "I cannot conceive how different nations could agree to put an Imaginary Value upon anything . . . by which all other Goods are valued. . . ."[23]

However, Law himself made "converted use" of Locke's view.[24] He qualified the increased value of silver accompanying the increased demand for it caused by the birth of silver currency—he regards silver as the measure of commodity evaluation although gold and bronze also can be currencies—as "the additional Value" and argued, "If either of these Values are imaginary, then all Values are so."[25] He sought the substance of the imaginary value of silver money in the additional value composed of the volumes of existence of and demand for it.

This imaginary-value theory was accepted also by Richard Cantillon under

19) Blanqui, J. A., *Histoire de l'Economie Politique en Europe*, vol. I, Paris, 1845, p. 50.
20) Locke, J., "Some Considerations of the Consequences of the Lowering of Interest and Raising of the Value of money," *The Works of John Locke*, vol. V, London, 1963, p. 22.
21) Marx, K., *Zur Kritik der Politische Oekonomie*, Karl Marx-Friedlich Engels Werke, vol. 13, S. 139. As regards this view of Locke's Marx also says, "Gold and silver have merely imaginary or conventional value," (*ibid.*, the same page.)
22) *Capital*, vol. I, p. 93.
23) Law, J., *Money and Trade Considered with a Proposal* (reprint), New York, 1966, p. 9.
24) List, C., *History of Monetary and Credit Theory*, Jap. version by Amanuma, S., Jitsugyōnonihonsha, 1943, p. 112.
25) Law, *op. cit.*, pp. 10–11.

a condition of "declining quality of coins," that is, depreciation of nominal and real fineness.

Cantillon maintains that money value is not simply constructed on Locke's consent of mankind consentement des Hommes), showing an example:

"If for example a Prince or a Republic gave currency in the State to something which had not such a real and intrinsic value, not only would the other States refuse to accept it on that footing but the Inhabitants themselves woulld reject it when they perceived its lack of real value."

By Cantillon, "They (currencies—quoter) have a value proportionable to the land and labor which enter their production" alike with other commodities. "It must not be concluded that money has only imaginary value (valeur imaginaire)."[26] Thus he stresses presence of "objective value."[27]

Further Cantillon, after analyzing the phenomenons of "paper money" observed in the collapse of Law's System, discussed:

"An abundance of fictitious and imaginary money (argent fictif & imaginaire) causes the same disadvantages as an increase of real money (argent réel) in circulation, by raising the price of Land and Labor, or by making works and manufactures more expensive at the risk of subsequent loss. But this furtive abundance vanishes at the first gust of discredit and precipitate disorder."[28]

Though standing on the quantity theory of money which identified the law of circulation of metallic currencies and that of "paper money,"[29] he propounded the problem of fictitious and imaginary money distinguishing from real money.

By this he defied the view of Law who held that affluence of money enriches a country and "paper money" is superior to metallic money on his ground of over-appreciation of the benefit credit.[30]

On the other side the fact that "money can, in certain functions, be replaced by mere symbols to itself,"[31] and the decline of the value of metallic money caused by the vast inflow of silver into Europe as a result of Spain's conquest over Mexico and Peru were also introduced into money theory.

Charles Montesquieu, taking an optimistic view of money, said:

"As specie is the sign of the value of merchandise, paper money is the sign of the value of specie; and when it is of the right sort, it represents this value in such a manner that as to the effects produced by it there is not the least difference."

And he argued as follows:

"Gold and silver are either a fictitious or a representative wealth

26) Cantillon, R., *Essai sua la Nature de Commerce en Général*, edited with an English Translation and other material by Higgs, H., London, 1931, pp. 111–3.
27) T. Watanabe, *Sōsetsusha no Keizaigaku*, Miraisha, 1961, p. 296.
28) Cantillon, *op. cit.*, pp. 310–11.
29) T. Watanabe, *op. cit.*, pp. 306–10.
30) Law, *op. cit.*, pp. 13, 103; Blanqui, *op. cit.*, vol. II, pp. 65–6.
31) *Capital*, vol. I, pp. 93–4.

(richesse de fiction ou de signe) ... But the more they are multipled, the more they lose their value, because the fewer are the things which they represent." "The companies and banks established in many nations have put a finishing stroke to the lowering of gold and silver as a sign of representation of riches; for new fictions (nouvelles fictions) they have multiplied in such a manner the sign of wealth, that gold and silver having this office only in part have become less precious. Thus public credit serves instead of mines."[32)]

Montesquieu grasped both metallic money and "paper money" as a fictitious circulating medium, and especially as to the latter stated:

"In states that carry on an economical commerce, they have luckily established banks, which by they credit have formed a new species of wealeh; but it would be quite wrong to introduce them into governments whose commerce is founded only on luxury."[33)]

Thus he appreciated "paper money" as what can take the place of specie, yet entertained a fear on the use of this new fictitious money.

It was David Hume that positively advanced the fictitious character of circulating media themselves to a theory of money value following this trend of thought. Hume defined that, "Money having chiefly a fictitious value, the greater or less plenty of it is of no consequence, if we consider a nation within itself," and as regards the substance of this fictitious value added "value arising from the agreement and convention of men,"[34)] approaching the imaginary-value theory of Locke in so far as this remark is cencerned.

2. Development of the concept of fiction about "paper money"

It was said that the suspension of specie payment of the Bank of England extended over twenty four years after 1979 inevitably caused rises in the gold price due to excessive issue of bank notes.

This problem brought about a great controversy around the report of the Bullion Committee, especially earnest inquiry into inflation. David Ricardo, observing the value fall of bank notes under such a situation, called the price of gold transacted on the nominal value of depreciated bank notes "a nominal fictitious price."[35)]

What is said fictitious by Ricardo here denotes the appreciated gold price which obviously different from what we have considered in the above.

Later on R. Hamilton also discussed the fictitious character of circulating

32) Montesquieu, C.-L. de, *The Spirit of Laws*, translated by Nugent, T., vol. I, New York, 1900, pp. 370–5.

33) *Ibid.*, p. 111.

34) Hume, D., *Writings on Economics*, edited and introduced by Rotwein, E., London, 1955, p. 48.

35) Ricardo, D., "Reply to Mr. Bosanquet's Practical Observations on the Report of the Bullion Committee," *The Works and Correspondence of David Ricardo*, edited by Staffa, P., vol. III, Cambridge, 1951, p. 207.

media in this bank restriction period, yet his view was in essence re-steaming of Cantillon's, mere pointing out of the dangerous nature of "paper money." He writes:

"An increase of circulating medium, by the artificial means of paper credit, has the same effect upon the price of commodities, and upon the property of creditors, as an increase of circulating coin. But this, although adopted under one form or another by most mercantile nations, has not the same tendency to equalization, and may occasion considerable changes in the state of commerce; always to the disadvantage of the nation where fictitious circulating medium most prevails."[36]

In this way when the concept of imagine and fictition was used about money by the theorists after Montesquieu only the latter adjective was selected, and, and the object of argument was centered on paper-made money.

Conceivably it was by Simonde de Sismondi that the concept of "paper money" was developed on the extension of this line."

In the thought of Sismondi there was a pulse of undestroyable distrust against "paper money." It was because "paper money," with the remarkable depreciation due to Law's System and the *assignat*, "almost completely destructed the circulating capital of French people" and was "causing ruin and confusion."[37]

He defined "paper money" as fictitious money (numéraire fictif) or false money (monnaie trompeuse)[38] and distinguished substantially not only from gold and silver but also from bank notes. By him, whereas "circulation of bank notes is voluntary" that of "paper money" is "compulsory;" "paper money" is nothing more than what is "declared by the law as equivalent to money; such a thing is illusionary (illusoire)."[39]

This is because "paper money" is "not what was produced by labor which requires cost; there is no security on the value it shows as is in gold and silver; it gives people illusion of wealth (illusions de la richesse). It has no real value similarly with "copper coin with fictitious value (valeur fictive)" which is considered as an "offshoot of paper money;" it is "debts of government."[40]

On another hand Sismondi pointed out "easiness for increasing banks and false credit to take the place of real assets" due to "surplus commerce," and persisted in that banks "attempt to replace real capital by credit" but this is

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36) Hamilton, R., "An Inquiry concerning the Rise, Progress, Redemption, Present State and Management, of the National Debt of Great Britain and Ireland." *A Select Collection of Scarce and Valuable Tracts and other Publications on the National Debt and the Sinking Fund*, edited by McCulloch, J. R., London, 1857, p. 442.

37) Sismondi, L.-C.-L. S. de., Nouveaux *Principes d'Economie Politique, troisième* édition, tome second, Genéva & Paris, 1953, p. 98.

38) *Ibid.*, pp. 53, 101.

39) *Ibid.*, pp. 95–6. Sismondi says, if compulsory circulation power is given also to bank notes "people fall in an abyss," p. 69.

40) *Ibid.*, pp. 46, 53, 96, 100.

"to continue advance toward destruction."

For example, referring to the old and new Copenhagen Banks he explains that, "Both banks contracted to make payment at sight for their notes (billet); both believed that their imaginary funds (fonds imaginaires) were worthy to lend to government or individual persons, and by this they destructed themselves as well as the state."[41]

To compare with Sismondi's view as described above, J. Fullarton was far more optimistic. Developing the viewpoint from Locke to Hume—fictitious value of money is built on the consent of mankind—he wrote:

> "That, as far as concerns our domestic exchanges, all the monetary functions which are usually performed by gold and silver coins, may be performed as effectively by a circulation of inconvertible notes, having no value but that fictitious and conventional value they derive from the law, is a fact which admit, I conceive, of no denial. Value of this description may be made to answer all the purposes of intrinsic value, and supersede even the necessity for a standard, provided only the quantity of issues be kept under due limitation."[42]

Thus very contrastive views had been born between France and Britain presumably deriving from the difference of experience about "paper money."

According to Blanqui, in France "despite guarantee by means of state-owned land on the assigner and mandat money, since the failure of Law's System people have suffered a great decline of value never known in financial history, . . . by which they have become almost impossible to circulate as money."

On the contrary in Britain, even in face of the payment suspension of the Bank of England the value of bank notes was maintained "because the government had pridence not to increase the issue of them which had turned to be mere paper money, . . . and so no collapse occurred."[43]

Anyhow, the concept of fiction about money was one attached to both money as the circulating medium and to its value. The content of this conceptional definition, however, had shown appreciable changes according to the difference of money stuff as the object of consideration the subject of its issue, and the role of money played through history.

Therefore it is impossible to give unitary qualification to the notion of fiction, imagine or illusion because it differs by the theorists even though they developed theories taking account of predecessors' views. It may be said, however, that when it was used concerning "paper money" it was a concept set down in contrast to real money or real value.

3. The concept of fiction about bills and its relation to "fictitious capital"

41) *Ibid.*, pp. 76–8.
42) Fullarton, J., *On the Regulation of Currencies*, 2nd edition. London, 1845, p. 21.
43) Blanqui, *op. cit.*, pp. 220–2.
44) S. Watanabe, *Kin'yūron*, Iwanamizensho, 1954, p. 25.

The bill of exchange, which makes a natural-born basis of credit system, are "usually drawn ... in case where commodities are transacted."[44]

However, Mill has written:

> "The convenience of the expedient had led to the frequent creation of bills of exchange not grounded on any debt previously du to the drawer of the bill by the person on whom it is drawn. These are called accomodation bills, and sometimes, with a tinge of disapprobation, fictitious bills."[45]

This fact of writing a bill as fictitious one had already been taken up by Smith in the *Wealth of Nations* as "the well known shift of drawing and re-drawing."

Smith shows an example that two concerned persons in London and Liverpool drawn accomodation bills on each other, discount these to raise funds, and for their payment again draw other bills of a little larger amount before due date, and asserts," This payment, therefore, was altogether fictitious."

Accordingly he writes:

> "... a capital which ... had been very artificially contrived to draw from those banks," through a technique "to assist one another in this method of raising money, and to render it, upon that account, as difficult as possible to distinguish between a real and fictitious bill of exchange," in other words, "The paper which was issued upon those circulating bills of exchange ... had there been no paper money ..., was, consequently, over and above the value of the gold and silver which would have circulated in the country.[46]

Smith points out that mutual writing of fictious bills by speculative businessmen and their discount by banks create new money capital and result in growth of "paper money" surpassing the whole necessary quantity, and qualifies these phenomenons as fictitious. Thereby naturally arises a problem of the character of real and fictitious bills.

H. Thornton, whose explanation of the credit form in the British commercial society in the first half of the 19th century Mill appreciated as clearest, set forth as follows:[47]

> "Suppose that A sells one hundred pounds worth of goods to B at six months credit, and takes a bills at six months for it; and that B, within a month after, sell the same goods, at a like credit, to C, taking a like bill; and again, that C, after another month ..., and so on; then at the end of six months, six bills of 100 *l* each existing at the same time," and all these will be discounted.

On this supposition he says in such "real bills" as in this case, since "one

45) Mill, J. S., *Principles of Political Economy with Some of their Applications to Social Philosophy, Collected Works of John Stuart Mill*, vol. III, Toronto, 1965, p. 532.

46) Smith, A., *An Inquiry into the Nature and Causes of the Wealth of Nations*, vol. I, 1st edition, London, 1776 (copy (1976), pp. 373, 376–8.

47) Mill, *op. cit.*, p. 531.

only represents any actual property" both the bill-holder and the man who discounts simply place "as much trusts to the general ability to pay of the giver of the bill, as the holder of any fictitious bill does." He furthermore states, "The fictitious bill may, in many cases, be a bill given by a person having a large and known capital, a part of which the fictitious bill may be said, in that case, to represent." With this example he answered "an assertion" prevailing at that time which held: "Real notes, it is sometimes said, represent actual property. There are actual goods in existence, which are the counterpart to every real note. Notes which are not drawn in consequence of a sale of goods are a species of false wealth, by which a nation is deceived. These supply only an imaginary capital."

In short such an "assertion" born from "the supposition that real bills represent property, and that fictitios bills do not" was regarded by Thornton as "the confused and mistaken notion" that takes fictitious bills as "something altogether false and delusive." And so he interpretated about the name of fictitious bill that:

> "... because such paper, when in the merchant's hand, necessarily imitates the paper which passes on the occasion of a sale of goods, the epithet fictitious has been cast upon it."

By this interpretation he attempted to correct the prevalent misconception about fictitious bills.

However, as Thornton himself acknowledged, "the dealer in fictitious bills is a man who is a more adventurous speculator, and ... besides being less safe, less subject to limitation as to their quantity."[48] Accordingly in actual transactions confusion was increased by these bills, and despite his efforts the "assertion" was not amended.

For example, Sismondi appreciated the role of real bills following the customary trend as follows:

> "Excepting cases where exchange bills are fictitious ... the total amount of exchange bills almost exactly represents the total amount of coins complemented bank notes which must float among merchants in a large volume, ... and bill discount is a way by which banks release bank notes in a natural way."

On the contrary as for fictitious bills he took up in connection with banker's task in times of commercial panic and discussed that bankers should "limit the amount of such bills so long as a panic continues, not provide new capital, and restrict transactions only to those who request discount of real and not fictitious bills (lettres de changes réelles et non fictives). This qualification of Sismondi was backed by his recognition that discount of fictitious bills adds to severity of

48) Thornton, H., *An Enquiry into the Nature and Effects of the Paper Credit of Great Britain*, edited with an introduction by Hayek, F. A., London, 1939, rep. 1962, pp. 82–89.

a panic and thereby bank notes inevitably become "paper money."[49]

On another hand an opinion similar with the above-mentioned example of Smith was set forth later on by W. Leatham.

After referring to the unstability of the "enormous superstructure of Bills of Exchange" standing on "the base formed by the amount of Bank note and gold" he staees:

> "It is impossible to decide what part arises out of real bôna fide transaction, such as actual bargain and sale, or what part is fictitious, and mere acomodation paper—that is, where one bill is drawn to take up another running, in order to raise a fictitious capital, by creating so much currency."[50]

Thus he defined that the generation of the circulating medium by way of discount of fictitious bills is creation of "fictitious capital."

Such practice of discount of fictitious bills is found also in the report of the Select Committee on the Bank Acts set up after the 1857 panic. From this report J. W. Gilbart cited a technique of fictitious bill operation used by a trading house that came bankrupt leaving a large amount of debts on banks and involving other houses. According to him this house employed many persons on whose names—in exchange for a small commission—built a system to draw fictitious bills "with appearance of genuine business transactions" and by this system raised money for business expansion.[51]

In the end such a house was only able to postpone bankruptcy, yet the problem was that easy availability of credit even for slack firms became prevalent.

So Gilbart insisted on that, "The best way for a banker to guard against loss from this practice is inquire in all cases about the acceptance of the bill that he discounts," yet he had to mention the difficulty of such control saying, "Indeed, it is only people in good credit that can pass fictitious bills."[52]

Again Gilbart quoted examples of "fictitious credit" that firms of poor capital became planters in colony lands by themselves and obtained advances by drawing bills on their houses in the home land.[53]

As may be seen by the above, where the term fiction was used about bills it was in contrast with "real bills." It was asserted that bank notes borne by discount of such bills become new fictitious or imaginary capital by that amount. And such capital drew special attention because it provided a Moment to promote speculation and all the more accelerated the panics.

49) Sismondi, *op. cit.*, pp. 61, 88, 91.
50) Leatham, W., *Letters on the Currency*, 2nd edition, London, 1840, pp. 8, 43–4.
51) Gilbart, J. W., *The History, Principles and Practice of Banking*, new edition, revised by Sykes, E., vol. III, London, 1907, pp. 321–2.
52) *Ibid.*, vol. I, p. 252.
53) *Ibid.*, vol. II, pp. 323–5.
54) *Capital*, vol. III, pp. 465–6.

III. "Fictitious Capital" Formed by Capitalisation

1. Formation of the concept of "fictitious capital"

To a view earnestly being held by some German statisticians, that is, "labor power itself is interest-bearing capital" and its "capital value is obtained by capitalising the average daily wage on the rate of interest, Marx threw a criticism that, "That insanity of the capitalist mode of conception reaches its climax here." And immediately following this he stated, "The formation of fictitious capital is called capitalisation" and thus adapted this concept of "fictitious capital by capitalisation" to securities.[54]

By Marx, however, such method of capital formation had been established already (although this word was not used):

> "... in the early stages of capitalist production" when "landed property was still regarded by popular conception as the pristine and respectable form of private property, while interest on capital was decried as usuary, ... represented interest on capital as a form analogous to ground-rent."[55]

For example, Locke defined:

> "That the value of land consists in this, that, by its constant production of saleable commodities, it brings in a certain yearly income ... it (money) is capable, by its interest, to yield us such a yearly income; and in this it has the nature of land."

And standing on this definition he wrote:

> "This being so, one would expect, that the rate of interest should be the measure of the value of land in number of year's purchase for which the fee is sold: for 100 *l* per annum being equal to 100 per annum, and so to perpetuity: 100 *l* per annum being the product of ... 200 *l* when money is at 5 per cent.... One would conclude, I say, that land should sell in proportion to use, according to these following rates, viz. when money is 5 per cent for 20 year's purchase."[56]

Actually, however, land prices were not corresponding with interest rates[57] and so some theorists—such as S. T. Culpaper, his son, and S. J. Child[58]—advocated lowering of interest, on which Locke discussed, "Why the price of land is not regulated (as, at first sight, it seems it should be) by the interest of money" lies in that "as of other things, (it) depends ... upon the number of buyers and sellers."[59]

As regards the national debt Locke states, "The debt of the state affording

55) *Capital*, vol. III, p. 622.
56) Locke, *op. cit.*, pp. 32–3, 37–8.
57) Locke says: "But experience tells us that neither in queen Elizabeth nor king James the First's reigns, when interest was at ten per cent was land sold for ten; or when it was eight per cent for twelve and a half year's purchase." Locke, J., *op. cit.*, p. 38.
58) Sir Josiah Child, *A New Discourse of Trade*, Jap. transl. by C. Sugiyama, Tokyodaigakushuppankai, p. 82.
59) Locke, J., *op. cit.*, pp. 38, 53.

to the creditors a constant yearly income, that is looked on as a safe revenue, and accounted as valuable as if it were in land."[60] Thus he spoke of similarity with land as a valuable thing bearing "safe revenue," but said nothing its price formation.

In this way the "notion" to calculate the price of land on the base of interest rates first had been born, and this method of evaluating land prices by purchase years was primarily a practice in Britain of that time. Prior to Locke, W. Petty, had cast a question, "Having found the Rent or value of the *usus fructus per annum*, the question is, how many years' purchase (as we usually say) is the Fee simple naturally worth?" and he considered the value to be the period three generations of "Grandfather, Father and Childs; ... all being alive together."

Petty esteemed it as twenty one years and hence "equal to one and twenty years, and consequently the value of land, to be about the same number of years' purchase." In this sense by Petty interest was not yet a presupposition for calculation of land prices, and the stage of thinking was to find inversely the interest rate from the profit rate of land, as is seen in his words, "As for Usury, the least that can be, is the Rent of so much Land as the money lent will buy."[61]

In a pamphlet of 1717 an anonymous writer said:

> "The lowering the Interest of Money will not raise the Value of Land. For this I appeal to plain Experience, Land having Sold for above Twenty Years Purchase all the last Century, when Money has been 10 per cent. and 8 per cent. and 6 per cent."

And this writer, after saying that money is lent at a rate above or below "the Legal Interest" because it is "plentiful" or "scarce," argued that, "To raise the Value of Land, unless it be designed for sale, is but raising an imagainary Fabrick."[62]

2. Transitional stage of the formation of the "fictitious capital" concept

Later by G. Berkeley we see:

> "Whether interest doth not measure the true value of land; for instance, where money is at five per cent, whether land is not worth twenty year's purchase?"[63]

And referring to the South Sea Babble case and the downfall of Law's System he discussed:

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60) *Ibid.*, p. 68.

61) Petty, W., "A Treatise of Taxes and Contributions," *The Economic Writings of Sir William Petty*, edited by Hull, C. H., vol. I, Cambridge, 1899, pp. 45, 48.

62) "A Letter to a Friend. In which is shown, the invistable Nature of Public Securities, by a Lover of his Country," *A Sellect Collection of scarce and valuable Tracts and other Publication on the National Debt and the Sinking Fund*, 1857, pp. 43–4.

63) Berkeley, G., "The Querist," The Works of George Berkeley, by Fraser, A. C., vol. IV, Oxford, 1901, p. 571.

> "Whether the ruinous effects of the Mississippi, South Sea, and such schemes were not owing to an abuse of paper-money or credit, in making it a means for idleness and gaming?" and further, "Whether those effects could have happened had there been no stockjobbing? And whether stockjobbing could at first have been see on foot, without an imaginary foundation of some improvement to the stock by trade?"[64]

Thus Berkeley regarded stockjobbing as dangerous, but on another hand he questioned:

> "Whether the credit of the public funds be not a mine of gold to England? ... "Whether such credit be not the principal advantage that England hath over France? I may add, over every other country in Europe?"[65]

Although he followed the view of those who advocated lowering of interest as for land, he did not yet consider that securities have the same nature with land. And he put quite different appraisal on stock shares and national debts, taking a very optimistic attitude to public credit.

Also Montesquieu, examining such a phase, especially Law's System, stated:

> "... these shares and these bills would vanish in the same manner as they arose. Stocks cannot suddenly be raised twenty or twenty-five times above their original value without giving a number of people the means of procuring immense riches in paper."

He thus pointed out the relation between bank note creation and stockjobbing speculation,[66] but on another hand argued that, "Ten persons have each a yearly income of a thousand crowns, either in land (fonds de terre) or trade (industrie): this raises to the nation, at five per cent, a capital of two hundred thousand crowns."

While experiencing abnormal stock markets by speculation, he regarded industry as well as land as "capital calculated by dividing income by the rate of interest," and maintained that these "are extremely advantageous to the state" alike with bank notes.

As for the public debt, however, he defined that, "People are thrown perhaps into this error by reflecting that the paper which represents the debt of a nation is the sign of riches," and negated the view that insisted on "this multiplied riches by increasing the circulation" mixing it with "circulating paper" (papier circulant) such as bank notes or stocks. For, he said, the public debt brings about disadvantages through various political, economic and social effects and has not advantages at all.[67]

64) *Ibid.*, pp. 442, 569.
65) *Ibid.*, p. 442.
66) Montesquieu, *op. cit.*, p. 388.
67) *Ibid.*, p. 394. The disadvantages Montesquieu mentions are the following four: 1) large outflow of interest if foreigners hold the national debt in a vast amount, 2) remarkable fall of the exchange, 3) rises of wages due to the taxes raised for the payment of the interest of the debt, and hence an injury to the manufactures, 4) transfer of the revenue of the state from diligent people to idlers.

As above Berkeley and Montesquieu took the same viewpoint about the formation of land value but developed quite opposite views as regards appreciation of company stocks and public debts.

Montesquieu's argument seems to maintain that the cause of the collapse of Law's System lay not in the joint-stock company form taken by the issuing banks and chartered companies or their bank notes, but in that most part of capital of these companies were paid in with public debts.[68]

Hume was affected by such anti-debt theory of Montesquieu, approved the "disadvantages" advocated by the latter, and set forth his own view following this line as a whole. However, since Britain was not dealt so big a blow as was France even under the excessive floatation of public debts,[69] he was able to mention some "advantageous cases" of the public debt.[70]

Hume defined the character of the public debt as "... to impower a statesman to draw bills, in this manner, upon prosperity," or "a kind of money capable to pass as readily at the current price as gold or silver," in other words "a kind of paper credit," and said, "They banish gold and silver from the most considerable commerce of the state, reduce them to common circulation and cause price rises." Yet here his explanation is not always clear about how state debts as "paper money" banish gold and silver, bring about "an accidental outflow of money," and "raise the price of labor and commodities."

Different from Montesquieu, however, Hume grasped public bonds as "a species of money that is continually multiplying in their hands (holders') and produces sure gain," and considered them as similar with "Bank stock or India bonds."[71]

Hume's anti-bond argument, succeeding such Montesquieu, was a minority in the current of though on public bonds in Britain of the first half of the 18 century. His thought was transferred to Smith, leading to foundation of the classical theory of public bonds. Though being opposed to this trend, S. J. Steuart played an important part as a bridge to Smith.

Notwithstanding his detailed analysis of the collapse of Law's System, Steuart positively appreciated significance of public bonds, and discussed that they are "rather beneficial to people" because they furnish properous circulation, promote industry, and give no loss to "general basic property."[72]

By Steuart, however, consideration on the value of public bonds was not yet complete, though he admitted that they are an object of investment of

68) Steuart, S. J., *An Inquiry into the Principles of Political Economy*, vol. II, edited with an introduction by Skinner, A. S., Edinburgh, 1966, pp. 540–1.
69) T. Tanaka, *Shakaigakusha to shiteno Hume*, Miraisha, 1971, pp. 211–2.
70) Hume's advantageous cases are: 1) it is a secure property by whose revenue merchants and families holding it sustain livelihood, 2) more men ... with large stocks and income ... promote trade (*op. cit.*, p. 94).
71) Hume, *op. cit.*, pp. 92–6.
72) I. Kaida, "Igirisu Kōsai Shisō no Ichi Tenkei—James Steuart," *Kansai Daigaku Keizai Ronshū*, vol. 14, No. 6.

"money stagnation."

As Petty and Locke calculated the interest rate by the relation between land prices and rents, so Steuart intended to seek "the legal interest" of money from the relation between the price of the public bond and its interest, saying:

> "The current price of money, "I think, is best to be determined by the price of stocks. If a 4 per cent sell at par, money may be said to be then at 4 per cent. If the same stock fall to 89, then the value of money rises to near 4½; if the same stock rise to 114, them the value of money falls to about 3⅓."

Here of course he was aware that if the value of money were set at a level below the interest rate of stocks "stocks would rise in proportion."[73]

3. Foundation of the concept of "fictitious capital"

Smith, taking up land as the object of investing "Stock lent at interest," explained:

> "The ordinary market price of land, it is to be observed depends every where upon the market rate of interest" ... in fact "As interest sunk to six, five and four per cent, the price of land rose to twenty, five and twenty, and thirty years purchase."

Here Smith grasped the reason why the years of land purchase are not exactly inversely-proportionate to the interest rate as "the superior security of land."[74]

By contrast in the theory of public bonds he was in the line of Hume and considered these as "unproductive," as we have seen already. He looked bonds as an investment object of loan capital and acknowledged that, "(the bond) generally sells in the market for more than was originally paid for it. The merchant or monied man makes money by lending money to government, ... increases his trading capital." Nevertheless he was opposed to the view that it is "the accumulation of a great capital super-added to the other capital of the country."

According to Smith, to its holders the public stock:

> "it was in some respects a new capital to them, it was not so to the country; but only a capital withdrawn from certain employments in order to be turned towards others."[75]

In this sense he did not go even a step further from Montesquieu, and spoke nothing about the relation between price formation of bonds and market interests.

"I am of opinion that the fundsarenot indebted for their high price to reached clear formulation. As regards the relation between money depreciation and bond prices he discussed:

73) Steuart, *op. cit.*, pp. 458–9.
74) Smith, *op. cit.*, vol. I, p. 436.
75) *Ibid.*, vol. II, pp. 537–40, 556–7.

"I am of opinion that the funds are not indebted for their high price to the depreciation of currency. Their price must be regulated by the general rate of interest given for money." And further referring to the stock of the Bank of England, "...the price of capital stock has nearly doubled since 1979, and their dividends have proportionally increased."[76]

Because in the age of Ricardo securities were transacted by means of funds lent at a 5 per cent rate of interest, the legal highest at the time,[77] capital stocks may have been defined by this rate.

However, on the other hand he argues:

"During the war in 1798, the 3 per cents. were at 50, while the 5 per cents. were at 73, and at all times the 5 per cents. bear a very low relative price to the 3 per cents."[78]

Therefore stock prices were not always defined as the principle he asserted.

Under such situation it may have been natural that Hamilton discussed as follows:

"Much has been said by Dr. Price and others, of the advantage which a sinking fund produces in supporting the price of stock. We apprehend it is incapable of producing any such effect. The price of stock, like that of any commodity, depends on the proportion of supply and demand."

However, on another place he says:

"The natural proportion of the price of capital in the three per cent. four per cent. and five per cent. funds, is the same as that of the respective rates of interest. Thus, if the five per cents. be at par, the four per cents. should be at 80, and the three per cents. at 60."[79]

Thus he set forth that between different interest-bearing stocks the ratio between stock price and interest, so-called yield, becomes the same.

Among the opponents to public debts after Montesquieu the most radical one may be Sismondi, who held, "No invention has ever been so miserable to mankind as public debts and there has been nothing that was surrounded with so much illusion."

He was vigorously opposed to the view of the supponents of public bonds, that is, who regarded "even wasteful use of national capital by bonds as circulation that has produced wealth in other form," and appreciated that "public bonds (dettes nationales) is a vast amount of floating capital, a monetary power, and an essential portion of current capital that moves industry."

By Sismondi firstly public debts are nothing more than "what the cabinet wastefully expended it (capital drawn from commerce by floatation of bonds—quoter) and replaced it by *assignations* to the future," and hence what uses

76) Ricardo, D., "*The High Price of Bullion,*" *op. cit.*, vol. III, pp. 93–5.
77) Silberling, N. J., "Financial and Monetary Policy of Great Britain during the Napoleonic Wars," *The Quarterly Journal of Economics*, vol. 38, 1924, pp. 427–8.
78) Ricardo, "*Funding System,*" *op. cit.*, vol. IV, pfl 184.
79) Hamilton, *op. cit.*, pp. 611–2.

"labor and hope of posterity for the attack and defence of the current generation."

And so he maintained that, "After destructive expenditure made possible by the bond, nothing is left other than apparent wealth called public bonds (fonds publics)." "Such apparent wealth is nothing but imaginary capital (capital imaginaire) representing the portion of national income that is expected to pay such debts." "Capital equivalent to them has been already consumed, capital existing nowhere."[80]

His father, who was investing in a large amount of French bonds, was ruined by the outbreak of revolution and thereby he left his college life to work as a shopman.[81] Such Sismondi's experience must have greatly influenced on his thought on bonds.

On the other hand, however, Sismondi was aware of the manner through which such apparent wealth is built as capital when he said:

> "... according to the customary proportion between capital and interest in the country, an imaginary capital is assumed equivalent to that which could give rise to the annual income which these creditors are to receive."[82]

Such thought of Sismondi is obviously a summary of the views of anti-bond theorists, and needless to say was succeeded to Marx's definition of public bonds and theory of "fictitious capital" developed in the *Capital*, vol. III.

As has been mentioned several times already, Law's System was an important object of inquiry in the formation of the concept of the so-called circulating securities. For example, Montesquieu treated public bonds distinguishing from bank notes and company stocks. Contrastively Blanqui abstracted out public bonds and took a standpoint to distinguish between bank notes and company stocks.

On examining Law's law, Blanqui said it "identified bank notes and the India Company share, in other words, the true value obtained in exchange for gold and silver and fictitious and eventual value (valeurs éminement fictives et éventuelles)," and led to payment stoppage. And so from this viewpoint he held that ultimately the cause of the collapse of Law's System was excessive issue of bank notes and the India Company share, and "fictitious capital (capitaux fictifs) was unable to supply real interest."[83]

The reason why Blanqui regarded company stocks as "fictitious capital" appears to lie in that he contrasted them to "real interest" composed of gold and silver, so long as these phrases are concerned. It is impossible, however, to judge whether this definition was first made by Blanqui. Since Marx made no quotation from this work of Blanqui's, it may be convinsible to consider that this definition was being used to some extent at that time, unless Marx gave it

80) Sismondi, *op. cit.*, pp. 152–5.
81) S. Yoshida, *Itan no Keizaigakusha Sismondi*, Miraisho, 1974, pp. 20–1.
82) Sismondi, *op. cit.*, p. 155.
83) Blanqui, *op. cit.*, vol. II, pp. 80, 85–6.

independently by himself.

On another hand it was J. Rodbertus that proposed the concept of capitalisation in the same sense with Marx, though referring to the price of land.

He said: "A piece of land is capitalised (capitalisiert) on the basis of the rent of land, in other words land rent is conceived as interest, and the capital value (Capitalzahl) is sought in proportion to the usual interest rate."[84)]

However, Rodbertus, an exploiter of peasants dwelling in tiny huts of Pomerania,[85)] was unable to arrive at an idea of "fictitious capital" although he analogized land with capital.

It became possible only on the presupposition of the modern credit system that land or securities turned to "fictitious capital" by actual capitalisation, although this notion was preceding.

And although among the predecessors of Marx this conceptional definition of fiction was mentioned with respect to the character of value formation of land and securities as the object, it was never as a common category of these objects.

This means that they had not yet recognized the significance of "fictitious capital" as did Marx, and this must be said natural at the stage prior to the foundation of the modern joint-stock company system.

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84) Rodbertus, J. K., *Zur Erkenntnis unserer Staatswirtschaftlichen Zustände*, Heft 1, Funf Theoreme, "Gesamtwerke und Briefe," von Th. Ramm, Abt I, Bd. I, Osnabrück, 1972, S. 121.

85) *Karl Marx-Friedlich Engels*: Werke, Bd. 34, 1966, S. 149.