
**Maurizio Donato**

# Fictitious Capital, Valorisation, Zombie-Firms

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Maurizio Donato *

**Abstract**

In the years leading up the 2008-09 crisis, the leverage ratio has increased. At the end of Q3 2020, the IMF's Global Debt Database shows that total global debt reached US$275 tn. A not insignificant part of this debt is fictitious capital. Usually, a share of the global capital stock is inactive, while the remainder is valorised at a low profit rate for the pressure exerted by the inactive share of capital.

The production-circulation-consumption cycle of a commodity lasts a long time, so, the entire valorisation process takes a long time. To shorten its life, the cycle must last less, and therefore be produced in less socially necessary labour time (SNLT); the commodities produced in new technological conditions will last less because they are worth less: they contain less SNLT.

Once innovation is widespread, products made with old technologies would be too expensive compared to the new SNLT, but the transition can last a long time. The new *numéraire* can take a long time to establish itself on the market. What happens to firms that operate in non-efficient conditions? Until now, public bail-out or zombie-firms: are these solutions sustainable? The result is the formation of speculative bubbles: fictitious capital, parked waiting for a devaluation or destruction.

## 1. Non performing capital

During the years preceding the outbreak of the financial crisis, there had been a spectacular increase in the leverage ratio.

More than ten years after the beginning of the crisis, world economies could have been expected to have reduced their debts at least in part. It wasn't like that: the last update of the IMF's Global Debt Database shows that total global debt reached US$275 trillion in Q3 2020.

A non-secondary cause of this non-deleveraging consists in the increase in 'non-performing' loans (debts): these are mortgages or more generally loans that the debtors are no longer able to repay regularly or entirely.

In Marxian terms, we can define it as "fictitious capital", which - as Marx and Engels argue in the Volume III of Capital – "has its own laws of motion".

In the context of a critical analysis of the concept of public debt, Karl Marx writes "in all these cases, the capital, as whose offshoot (interest) state payments are considered, is illusory, fictitious capital. Not only that the amount loaned to the state no longer exists, but it was never intended that it be expended as capital, and only by investment as capital could it have been transformed into a self-preserving value. [..] No matter how often this transaction is repeated, the capital of the state debt remains purely fictitious, and, as soon as the promissory notes become unsaleable, the illusion of this capital disappears. Nevertheless, this fictitious capital has its own laws of motion, as we shall presently see. [..] The formation of a fictitious capital is called capitalisation. [..] The independent movement of the value of these titles of ownership, not only of government bonds but also of stocks, adds weight to the illusion that they constitute real capital alongside of the capital or claim to which they may have title. For they become commodities, whose price has its own characteristic movements and is established in its own way. Their market-value is

*Università di Teramo, Dipartimento di Giurisprudenza. Email: mdonato@unite.it.

determined differently from their nominal value, without any change in the value (even though the expansion may change) of the actual capital. On the one hand, their market-value fluctuates with the amount and reliability of the proceeds to which they afford legal title. [..] The market-value of this paper is in part speculative, since it is determined not only by the actual income, but also by the anticipated income, which is calculated in advance. On the one hand, their market-value fluctuates with the amount and reliability of the proceeds to which they afford legal title. If the nominal value of a share of stock, that is, the invested sum originally represented by this share, is £100, and the enterprise pays 10% instead of 5%, then its market-value, everything else remaining equal, rises to £200, as long as the rate of interest is 5%, for when capitalised at 5%, it now represents a fictitious capital of £200. Whoever buys it for £200 receives a revenue of 5% on this investment of capital. The converse is true when the proceeds from the enterprise diminish. But assuming the expansion of the actual capital as constant, or where no capital exists, as in the case of state debts, the annual income to be fixed by law and otherwise sufficiently secured, the price of these securities rises and falls inversely as the rate of interest. If the rate of interest rises from 5% to 10%, then securities guaranteeing an income of £5 will now represent a capital of only £50. Conversely, if the rate of interest falls to 2.5%; the same securities will represent a capital of £200. Their value is always merely capitalised income, that is, the income calculated on the basis of a fictitious capital at the prevailing rate of interest. Therefore, when the money-market is tight these securities will fall in price for two reasons: first, because the rate of interest rises, and secondly, because they are thrown on the market in large quantities in order to convert them into cash. This drop in price takes place regardless of whether the income that this paper guarantees its owner is constant, as is the case with government bonds, or whether the expansion of the actual capital, which it represents, as in industrial enterprises, is possibly affected by disturbances in the reproduction process. In the latter event, there is only still another depreciation added to that mentioned above. As soon as the storm is over, this paper again rises to its former level, insofar as it does not represent a business failure or swindle. Its depreciation in times of crisis serves as a potent means of centralising fortunes."

In modern terms, we could say that over the business cycles, it is normal for a part of the existing capital stock to remain wholly or partially inactive, while the rest is valorized at a profit rate lower than the maximum theoretically possible, precisely because of the pression exerted by the inactive share of capital. A given share of the means of production, fixed capital and circulating capital, periodically ceases to act as capital; a share of the productive firms acting in the market stop the business. The size of this share, the relative weight of non-valorized capital in relation to the total, depends on the strength of the global competition that ultimately decides which and how much fraction of the global capital must be condemned to inactivity.

In the preparatory notebooks for the study of Capital known as Grundrisse, Marx takes up this characteristic of duality as a necessary form and reinforces its meaning by grasping its character unitary and contradictory: "the process of valorizing capital presents itself simultaneously as its devaluation process [Entwertungsprozess]".

Furthermore, Marx clarifies that this dynamic must be understood in a double sense: to deal with the continuous devaluation of capital in the accumulation process, it is necessary analyze the concentration and competition process - which presupposes the presence of multiple capitals. Instead, the devaluation to which Marx refers here (in the Grundrisse) is that which, at a higher level of abstraction, belongs to the form in which the commodity-capital appears after the first phase of the production-valorization process has been completed. This explains why the category of devaluation was introduced by Marx in that part of the Notebook in which it deals with the transition from the production to the circulation process.

In another book, temporally located "halfway" between the Grundrisse and the Capital, Marx deals extensively with the issue of devaluation, in this case linking it to the process of accumulation and further specifying the difference between capital destruction and its depreciation. These are the Manuscripts of 1861-63, which contain the theories of surplus value .

In these Manuscripts, discussing the theses of David Ricardo about crises, Marx clarifies that,

when - following an economic crisis - the production process stops and the work is limited or, in some cases, completely stopped, there is destruction of real capital. Machinery that is not used is no longer capital, just like the labor-force that is not exploited and the raw materials that lie in the warehouses.

The destruction of use values it necessarily brings with it the destruction of value, but that"s not all. The crisis also involves the depreciation of masses of value and a ruinous decrease in prices, what in terms modern is termed as deflation. In the latter case, there is no capital destruction in physical sense, the use values are still theoretically consumable, and it is their devaluation that allows the capital accumulation to restart, although in new conditions.

In this phase - Marx writes - the financial capital is enriched at the expense of the industrial capital. In this phase, we can observe the role of the fictitious capital.

"When speaking of the destruction of capital through crises, one must distinguish between two factors. In so far as the reproduction process is checked and the labour-process is restricted or in some instances is completely stopped, real capital is destroyed. Machinery which is not used is not capital. Labour which is not exploited is equivalent to lost production. Raw material which lies unused is no capital. Buildings (also newly built machinery) which are either unused or remain unfinished, commodities which rot in warehouses— all this is destruction of capital. All this means that the process of reproduction is checked and that the existing means of production are not really used as means of production, are not put into operation. Thus, their use-value and their exchange-value go to the devil.

Secondly, however, the destruction of capital through crises means the depreciation of values which prevents them from later renewing their reproduction process as capital on the same scale. This is the ruinous effect of the fall in the prices of commodities. It does not cause the destruction of any use-values. What one loses, the other gains. Values used as capital are prevented from acting again as capital in the hands of the same person. The old capitalists go bankrupt.

If the value of the commodities from whose sale a capitalist reproduces his capital was equal to £ 12,000, of which say £ 2,000 were profit, and their price falls to £ 6,000, then the capitalist can neither meet his contracted obligations nor, even if he had none, could he, with the £ 6,000 restart his business on the former scale, for the commodity prices have risen once more to the level of their cost-prices. In this way, £ 6,000 has been destroyed, although the buyer of these commodities, because he has acquired them at half their cost-price, can go ahead very well once business livens up again, and may even have made a profit. A large part of the nominal capital of the society, i.e., of the exchange-value of the existing capital, is once for all destroyed, although this very destruction, since it does not affect the use-value, may very much expedite the new reproduction. This is also the period during which moneyed interest enriches itself at the cost of industrial interest. As regards the fall in the purely nominal capital, State bonds, shares etc. — in so far as it does not lead to the bankruptcy of the state or of the share company, or to the complete stoppage of reproduction through undermining the credit of the industrial capitalists who hold such securities — it amounts only to the transfer of wealth from one hand to another and will, on the whole, act favourably upon reproduction, since the parvenus into whose hands these stocks or shares fall cheaply, are mostly more enterprising than their former owners."

## 2. Valorization and de-valorization (Theories of Surplus value)

To discuss more generally the relationship between devaluation and valorization, Marx quotes David Ricardo, according to which there would be a difference between value and wealth: technological innovations, causing an increase in the productive force of labor, would increase the wealth of nations, but not the value of the commodities produced.

In this case, Marx is not dealing with simple production, but he analyzes the reproduction of capital, that is, the accumulation process. It is not only a matter of reconstitute the same mass

of commodities or a fraction of it more, in a physical sense, but (it is matter) of reconstitute the value of the prepaid capital, plus an additional part, to be understood as a rate of profit.

Thanks to the invention of new machines, to a greater specialization, to a better division of labor and discover of new markets, one million men - Ricardo writes - can produce a mass of wealth double or triple than before; but this does not would increase the mass of value. On the contrary - Ricardo continues - the value of the total mass of the produced commodities will shrink: "Suppose with a given capital the labour of a certain number of men produced 1,000 pair of stockings, and that by inventions in machinery, the same number of men can produce 2,000 pair, or that they can continue to produce 1,000 pair, and can produce besides 500 hats; then the value of the 2,000 pair of stockings or of the 1,000 pair of stockings, and 500 hats, will be neither more nor less than that of the 1,000 pair of stockings before the introduction of machinery; for they will be the produce of the same quantity of labour."

"But the value of the general mass of commodities will nevertheless be diminished; for, although the value of the increased quantity produced, in consequence of the improvement, will be the same exactly as the value would have been of the less quantity that would have been produced, had no improvement taken place, an effect is also produced on the portion of goods still unconsumed, which were manufactured previously to the improvement; the value of those goods will be reduced, inasmuch as they must fall to the level, quantity for quantity, of the goods produced under all the advantages of the improvement: and the society will, notwithstanding the increased quantity of commodities, notwithstanding its augmented riches, and its augmented means of enjoyment, have a less amount of value. By constantly increasing the facility of production, we constantly diminish the value of some of the commodities before produced, though by the same means we not only add to the national riches, but also to the power of future production" (l.c., pp. 320-22).

Ricardo therefore believes that the introduction of technological innovations in production processes influences not only the value of 'innovated" goods, but also that of the goods produced with the previous technology and not yet sold (Ricardo uses the expression: not consumed).

Marx does not agree with Ricardo regarding the consequences of the depreciation on the value of the total mass of the goods: while for Ricardo this value would be reduced tout-court, for Marx this phenomenon would occur only under two conditions: "Ricardo says here that the continuous development of the productive forces diminishes the value of the commodities produced under less favourable conditions, whether they are still on the market, or functioning as capital in the production process. But, although the value of one part of the commodities will be reduced, it does not by any means follow from this that "the value of the general mass of commodities will [. . . ] be diminished". This would be the only effect if, firstly, the value of the machinery and commodities that have been newly added as a result of the improvements, is smaller than the loss in value suffered by previously existing goods of the same kind; secondly, if one leaves out of account the fact that with the development of the productive forces, the number of spheres of production is also steadily increasing, thus creating possibilities for capital investment which previously did not exist at all. Production not only becomes cheaper in the course of the development, but it is also diversified."

So - in the Theories of surplus value - Marx agrees with Ricardo in judging how important are the consequences of technological innovations on devaluation (depreciation). However, unlike Ricardo, Marx considers the dialectic nexus between valorization and de-valorization, paying attention to the net effect of the two conflicting trends.

If the value added in a sector affected by the introduction of technological innovations is greater than that subtracted by the same innovation, because of the devaluation of the already existing assets and commodities, then "the wealth of nations grows." The conclusion we draw from this reasoning is that the reciprocal should also hold: if the value (price) of the commodities produced (sold) in technological conditions that remain below the average, is higher than that of 'innovated" goods and/or the productive utilization of new capital are lower than that in the 'mature' industries, then the capital accumulation is jammed, even if the capital don"t disappear.

## 3. The innovation-devaluation dynamic at a micro level

Let's now consider the production, circulation and consumption phases of a typical 'durable good". If a commodity lasts a long time, it is as if the entire process of production/circulation/ consumption would take a long time, which makes the introduction of new goods less frequent, other things being equal.

One way to sell more goods is to decrease the length of their consumption time. To achieve this, they must be produced in less "socially necessary labor time". But not all firms will succeed in this efficiency target, certainly not all al them simultaneously. A typical industry is made up of a minority of companies that innovate, while the others stand by, for various reasons.

When an innovative firm introduces some kind of technical progress in the production phases of its goods, these commodities will last less. They will last less because they are worth less, and they are worth less because they contain less 'socially necessary' labor time.

Therefore, once innovation is widespread, products obtained with outdated technologies will cost too much compared to the average socially necessary labor time. If consumers find companies that try to sell products at a price higher than that made possible by the new technology, they don"t buy these products. The market, whose purpose is precisely to "evaluate" the value of goods, does not validate the "old" value.

But it is not so simple and not costless to "abandon to his fate" this capital, and all the people who live thanks to this. It is not in general, and even more so in the recessionary phases of the economy.

As a matter of fact, the transition phases from one technological regime to another can last a long time. The new "numéraire", the new "global average value" - the reproduction value of the workforce - can take a long time to establish itself on the global market. What's happen in the meantime? What's happen to the value, surplus value, wages, employment of firms operating in non-efficient conditions?

From a theoretical point of view, all inefficient firms should go bankrupt, but is this outcome politically and socially sustainable?

The typical answer for decades has been public bailouts: but is it efficient and sustainable to keep "zombie- firms" alive? A real contradiction emerges. And here the role of fictitious capital also emerges.

Excessive debts, non-performing loans, bailouts of 'zombie- firms' are all ways in which fictitious capital manifests itself. Bad debts often turn into derivative products which in turn are nothing more than advances, it would be better to say bets, on future value and surplus value that will hardly be realized, certainly not for all firms.

This fictitious capital is "parked" somewhere, by feeding cyclic speculative bubbles, waiting to be valorized, although it is clear that not all fictitious capital can be valorized and a part - more or less large - will have to be - sooner or later, in one way or another - devalued or simply destroyed.

These dynamics occur continuously; appear in times of recession but have their roots in that economic phases where the pace of the technological innovations pushes productivity up, and this happens - albeit in a different way - for all forms in which capital manifests itself: commodity-capital, and monetary capital, even if only in a general crisis the phenomenon manifests itself more clearly.

## 4. Innovation, imitation, centralization

Returning to the industrial dynamics, a possible outcome is that "obsolete" producers are not able to sell their commodities, or are forced to "sell off", making a lower profit than expected, if not a loss.

Technological innovations that turn into higher productivity allow economic systems to produce with relatively less 'necessary labor' and more 'constant capital': it's efficiency, but it is also a

contradiction of the capitalist economy: a real, non-formal contradiction.

As Marx and - from a different perspective - J. Schumpeter pointed up, the dynamics of innovation has always been the engine of long-term growth in capitalism, and in this dynamic there is a trade-off between innovation and imitation, since many firms have financial constraints and are forced to‘ choose’ the path of imitation.

Many firms do not innovate, but wait for someone else to do it, thus saving research costs. Their goal is to improve or simply copy innovation.

For many firms, small or medium size large, this proves to be a choice that not only avoids bankruptcy, but can even prove to be more advantageous under certain conditions than that (risky) of innovating first.

More in detail, the possibilities that open to “non-innovative” companies, once the new technology has spread, are: do not sell a part of their production or sell it at “devalued” prices, that is: give up part of the expected profits; to fail; to be purchased by some companies that adopt the new technology; to imitate. Inizio modulo

The consequences of the various possibilities are, schematically: if the goods are not sold or are sold at an “excessive” price, i.e. at the prevailing market value, there will be a reduction in profits compared to expectations; if firms fail or are absorbed, the degree of market centralization increases; if they imitate, then the game of technological competition continues and starts again even if in more ”advanced” conditions than in the previous period.

## 5. Conclusions

The crucial variable that determines the direction of the valorization-devaluation process is the average composition of capital, the average capitalist intensity of production processes, to be considered - also in this case contradictorily - both in the physical sense in terms of use values (the technical composition of capital) and in value. If the growth rate of the composition in value of capital is greater than that of its physical composition, then the problem of over time devaluation will assume an increasing importance, both with respect to its own sector, and more in general with respect to the dynamics of accumulation.

In summary, it is unavoidable that there will be subjects, innovators and centralized on the world market scale, to which things “are going well” from a capitalist point of view.

Thanks to the centralized fraction of capital, the process of capital accumulation proceeds; for everyone else – and the point is to determine how big this fraction is and how much this share grows - that’s fine if they can recover the investment value and not fail. From a threshold onwards, the capital accumulation path becomes forked.

In terms of global capital, the extreme case of complete destruction or devaluation of the industrial plants would be counted as a net loss in capital value.

As a matter of fact, the capitalists who absorb fictitious capital, can obtain a – low or high - rate of interest; for those who are - at least potentially - absorbable by the centralized fraction of the capital, the only problem is the price at which to sell their goods or their company, debts included.

We could say that, in terms of the micro - macro relationship, while it is true that a strong devaluation of capital can devastate some individual capitalists in the times of crisis, it nevertheless constitutes a sort of safety valve for the class of capitalists as such.

For the system, capital devaluation is one way of prolonging his life span, to defuse the dangers that threaten to blow up the whole mechanism; in a biological key it could be said that the individual is sacrificed in the interest of the species.

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