THE ECONOMIC ESSENCE OF FICTITIOUS VALUE

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The category of fictitious value is viewed as a macroeconomic estimation of expected capitalized income and acts as a price of capital as a specific commodity on the stock exchange.

The most important and principal point in understanding the essence of the category of "fictitious capital" is the economic character of fictitious value. So far as capital means production relations concerning self-increasing value, the character of value plays the key role in understanding its peculiarities.

The given point has been discussed during the whole history of fictitious capital problem research. The attitudes towards the problem can be divided into several groups.

A number of scientists consider fictitious value as false, illusive, imaginary. Guided by the well-known statements of K. Marx about the illusive value as the value of non-existing capital these authors consider it as non-existing actually and not having any material base, a specific "non-value". The grounds of such views are the absence of factual labour costs for creating such value. It is considered that during fictitious capital circulation the circulation of value is interrupted and resumes only when securities are sold. In this respect a specific feature of fictitious capital is pointed out: it can bring quite real profit to its owner though it is not factually value. Fictitious capital attracts added value.

The other authors declare that fictitious value is "anticipated value", "profit value" or "profit price" using the term suggested by R. Gilferding and viewing it as a specific conventional quantity. Value for them is fictitious as it is defined not by labour costs but by capitalization of profit. As K. Marx said, it is "always only capitalized profit that is the profit calculated of illusive capital in accordance with the existing interest rate".

It should be mentioned the specific interrelation between the quantity of the value itself and the quantity of the profit it brings. When we speak about actual value which is the result of labour costs the quantity of value defines the quantity of the gained profit. In case of fictitious value there is an opposite relation: the quantity of value is the consequence of the quantity of the gained profit. In the given case fictitious value is viewed as a consequence of gained profits; regular profit is viewed as interest in conventional capital and it gives an idea that profit creates some irrational imaginary capital.

Recently an attempt was made to explain fictitious value phenomenon on the base of rent profits. Guided by propositions of V. Zombart those who present this idea interpret fictitious value as false, the basis of rent profits and rent relations. Such position inevitably leads to seeing the reason of monopoly fictitious capital in fictitious value as capitalized rent (analogically to price of land) and not in limited economic resources.

Nevertheless, all these various positions have the same base - viewing fictitious capital as an independent phenomenon and underestimating its organic interrelation with real capital. We suppose that fictitious value should be considered as representative, reflecting actual capital flow.

As for the first mentioned point of view to the nature of fictitious value, its authors are absolutely right that fictitious value has no connection with labour costs on its creation. Such labour costs can not exist because we deal not with the cost of an ordinary commodity but with the cost of "commodity - capital". Capital as a commodity is not sold for private use or production; it is invested with the aim of self-increase and making profit. That is it is sold for the ability of capital to make definite profit. And "the price of selling capital" should compensate investor the quantity of profit he could gain receiving the interest which provides such profit. Market value of capital is always the equivalent of capital value bringing definite profit at the given market terms of profitability which is expressed by interest rate. As a market price

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of invested capital is defined by capitalization of its profits with the acceptable interest rate the principle of pricing based on profit seems to neglect the very institution of price understood as an expression of value based on a definite working time necessary for production or reproduction of this or that commodity or production price as transformed form of value. In reality we deal with the development of the principle of pricing with regard to specific commodity - "commodity-capital". Such principle shows what price investor should pay for the unit of profit.

The same approach was used by K. Marx when defining market rate of a share or calculating price of land as capitalized rent. Such quantity is not just a figure with no material base. It reflects actual profits which appear during actual capital functioning. Such methodological approach is used when any functioning capital is being valued and it is based on understanding capital as future value flows generated by it and discounted by some definite rate. Here we can imply the ideas of I. Fisher who viewed capital as discounted profit flow; as current value of discounted future profits which can correspond univocally neither with capital stock nor with capital structure. U. Sharp also points out that according to fundamental analysis "true" (inherent) value of any financial asset is equal to current value of all cash flows the owner of the asset expects to receive in future. In accordance with such approach all profits created by actual capital and discount rate act as value-creating factors regarding fictitious value.

Such estimation is used for any real capital though it is not connected with labour costs of creating its material elements. That is why derivation of capital value estimation from the quantity of profit also does not indicate fictitious nature.

When the object of investment is one of the forms of fictitious capital, for example, a security, its market value reflects capitalized profit gained due to capital-function movement the representative of which is the above-mentioned security. We would like to point out once again that fictitious value reflects capitalized profit of capital-function, real capital represented on the market by the given fictitious capital. So, fictitious value reflects capitalization of profit gained by functioning, actual capital. "Fictitious nature" of value, in our point of view, is revealed through the fact that it reflects the financial market capitalized profitability **of another capital as its own** though it can not make any profits but only has claims on them. In this respect fictitious value acts as investment cost or the cost of investments in material elements of actual capital. Such approach does not contradict to the above mentioned provision of K. Marx concerning imaginary form of price. We suppose that "hidden value ratio" has place when fictitious value appears on the base of actual capital profitability.

Special attention should be paid to the position according to which fictitious value is identified with false value. False value is studied by K. Marx as excess of market price over real cost of commodity due to the monopoly on unreproducible natural resources. By its nature false value acts as overrated market estimation of commodity cost compared with actual labour costs on its production. It is peculiar false value that creates substance of rent profits.

A.N. Treschev relying on the well-known provision of V. Zombart concerning fictitious capital as "rent fund, rent basic sum, rent property" identifies false value with fictitious one and makes a conclusion that real value and real capital are opposed to false or fictitious value and fictitious capital in classical economic theory. The author believes that the fact that fictitious capital does not have its own value can be the basis for such identification. But at the same time such position makes us call monopolization of rent resource the cause of fictitious value which is wrong in essence.

There is a good reason to think that such position is based on some similarity of false and fictitious value and their opposition to actual value. But being opposite to actual value they do not have much in common and have different nature.

Fictitious value reflects capitalization of future profits of actual capital. False value is overrated market estimation of commodity cost not reflecting capitalized profitability of actual capital. False value is the excess of price over actual cost; fictitious value is the total cost of fictitious capital. False value is the excess of market value over actual value; fictitious value is the variety of market value as it is. False value is the consequence of the monopoly on rent resource; fictitious value is the consequence of division of capital-property and capital-function. False value is the part of commodity market value; fictitious value is investment value of capital. These two values have different spheres of arising and existence. In case of fictitious value this is financial market only; false value exists also in the sphere of production.

Undoubtedly along with the above-mentioned differences we can speak about the main, fundamental and principal differences between fictitious and false values. The base of false value is overrated estimation as the consequence of monopoly; the base of fictitious value is capitalization of profits from future financial flows. The fundamental base of false value is monopoly on resources; for fictitious value monopoly is alien, inadequate state of financial market. Fictitious value by its nature expresses fair market value to which monopoly is alien. But it is necessary to take into consideration that false value can also take place on financial market in case of the so called "bubble", the situation when state of the market goes up to the level not having objective base.

"Bubble" appears when the prices on financial assets increase with no connection with the profitability of actual capital, due to the euphoria expectations that prices will continue to grow as they have been growing till now. "Bubble" means that factual price of shares is not provided by financial ratios of issuers; market seems to "get ahead of itself"; securities prices cross the limit established by the market value of business they present.

"Bubbles" are regrettable results of success in economy; they appear when inflation and rates are low; when there is economic growth and optimism is increasing. Such "bubbles" are balanced and they take excess liquidity.

Apparently there is some objective cyclical mechanism forcing the market price of financial assets to loose its economic base and then to reach it again through market shocks and decrease of assets prices. In-built attributes of long-term cycles and financial activity are speculative overheating and financial markets crashes.

Excessive savings over the last decades provided low level of interest rates all over the world and increased liquidity much more than raising of money supply by central banks. It became an important factor of the fast increase of prices on different assets from shares to real estate.

Globalization makes it possible for "bubbles" to blow up in every part of the world. That is why there is an opinion that global economy is the "economies of bubbles". "Bubble" or groundlessly high market price of assets (real estate, securities and raw materials) can reach 50% of the world GDP. "Bubbles" blow up due to the excess of free cheap money. We know from history that when central banks of developed countries sharply decrease interest rates to level off the consequences of financial crises it provokes blowing up of a "bubble", in some new type of assets at that. Cheap money with which central banks are trying to cure the problems of the burst bubble on one market usually moves to another type of assets. Globalization expresses itself in a substantial increase of price fluctuation rate that can be connected with the increase of speculative capital share which often defines price dynamics on global markets. At the same time the nature of price movement has not changed; they change in accordance with the preferences of those who want to make a deal. But the preferences have changed: the main preference for a speculator is to gain profit and it is possible only if prices move. Speculative capital today enters developing markets driving them much faster then it is possible to do according to fundamental rates. Then the phase of capital repatriation starts which can lead to the crash of corresponding market. It can happen because if the "bubble" blows up national market can become open to negative shocks from global financial markets.

There is no doubt that the value nature of financial "bubbles" demands special additional studying, but in our case such "bubbles" testify the presence of false value on the market as substantial and groundless excess of market price over the level of fictitious value reflecting the fundamental profitability of actual capital. When there are no "bubbles", we suppose, there is no reason to speak about any interrelation between fictitious and false values.

It is also necessary to mention a number of other specific features of fictitious value. This value is anticipated, probabilistic estimation of future profits, possible model of development reflecting the value of actual capital. Its size is a peculiar economic model demonstrating real tendencies of actual capital functioning in perspective, a model of capitalization of future profits flows, recognized by the market. So, it has great economic importance as it designs production relations of capital creation in real proportions of social reproduction. The base of such market forecasts are well-formulated strategy and ways of future development leading to the increase of equity value, well-recognized situation on the market, well-reasoned growth forecasts. It takes into consideration long-term perspectives and potential risks of actual capital. Thus fictitious value is a form of probabilistic states of actual capital, "anticipated value", the possibility of receiving exactly such quantity with a definite degree of probability at the definite terms of the development of a given business, market and macroeconomic situation in the country.

Fictitious value is the value the **size of which is constantly changing** and the source of its changing is outside fictitious value. It can be explained by the nature of fictitious value: its size is regulated not by production expenses but by the size of profit and interest rate. One can only influence it by means of profits regulation or influencing rates. So the size of fictitious value can only be regulated by monetary policy instruments while there is no such influence on actual value.

Evaluation of anticipated profitability and suggestions concerning the dynamics of interest rates levels are subjected to constant changes. Possible changing of central banks interest rates, fluctuations of market liquidity levels, constant revaluating of investment risks, changing of rating evaluations of issuers' financial state, etc. lead to continuous fluctuation of fictitious value. That is why it is called momental dynamic rate. When securities indexes are calculated, the base is the price calculated as weight average value of the last ten transactions and time intervals of renewing the index data are constantly decreasing.

The reason of constant changeability of fictitious value is to a great extent in its high dependence from global economic information inflow. As U. Sharp pointed out, the value of any security depends on the future perspectives which are usually vague. Any additional information concerning these perspectives can lead to revaluation of a security. It is necessary to stress the fact that the dynamics of fictitious value is defined not only by the forecasts on the concrete actual capital but their combination with the changes in the state of national and global financial markets concerning liquidity level, loans value, demand from global investors, etc. Such state of the market has cyclical form of changing. It is also necessary to point out the priority importance of global information flows over local ones in defining dynamics of fictitious value. External factors remain decisive for the Russian securities market as more than 50% of the Russian assets is the subject of global funds transactions. So the securities value on developing markets will depend not on the state of macro economy of these countries but on the liquidity and value of money and reliability of global financial centres policy.

The attention of global investors to securities depends on the percentage of Russian shares in international indexes (MSCI Russia, MSCI Emerging Markets). Changes in this percentage lead to the increase of purchasing from the side of index funds and correspondingly liquidity and value of securities increase. Many investors are guided by MSCI indexes. Some investment funds invest money in shares in the same proportions as the proportions of these shares in indexes. If the shares of a company are included in the calculation of index it can lead to sharp increase of quotation in the short run and to the inflow of funds means in the long run. MSCI indexes are key indexes for a number of Western investment funds forming their portfolio in accordance with their structure. Inclusion or exclusion from an index or the changes in security proportion results in purchasing or selling of securities that is influence their value.

As a rule, fundamental factors define long-term tendencies of securities value changing but current volatility can be defined by short-term or perfunctory reasons: emotional, non-economic reasons (for example, geopolitical or political risks). Very often it happens that the quotations of a definite security are decreasing in spite of good fundamental data concerning the profits and business dynamics when negative news background reflecting the general state of the global economy gives worse estimation of fictitious value. That is definite factors can act both in the same and in the opposite directions and the global news, as a rule, prevail in evaluation of a definite security. Russia belongs to the group of developing markets. More than 80 developing markets account for not more than 10% of the world capitalization; the price of their financial assets is defined (by way of depository receipts on shares and Eurobonds) (London, New-York, Frankfurt)(9). So the fictitious value of the Russian securities is influenced by the national macro economy, the situation on the developing markets and the situation on the global markets. That is why fictitious value reflects macroeconomic anticipated estimation of the capital future profitability at the correspondent state of the global financial markets. The globalization of the process of value formation is going on the national stock market. So, fictitious value is becoming an indicator of the global capital market state and an instrument of its changes forecasting.

To understand the essence of fictitious value it is also worth studying it with the approach of so called just value which according to U. Sharp, is the value of security on the given moment (with the account of perspective estimation of its demand price level and its future profits) calculated by well-informed and skillful analytical workers. In the International Standards of Financial Reporting the term just value is used for the sum of money for which this or that financial instrument can be exchanged during a current transaction between two independent sides willing to conclude a deal except the cases of forced sale. In the examined conditions the existence of an effective capital market is possible only if any new information immediately and fully influence the rates.

Now it is rather difficult to implement this. The typical peculiarity of the capital markets in the last century was information homogenity. There were few sources of information. At the end of the XX century the situation changed thanks to the Internet and because stock brokers started working with the computer in their offices. News became global both for their sources and their influence on the markets. Depending upon the level of economic development definite regions of the world make different informational influence. All the important indexes of the USA either set or correct the direction of the economic processes all over the world (though the influence of Japan, South-Eastern Asia and Europe is also very high). The characteristic feature is that the farther this or that market is from the regions close to capitals the more "provincial" it is, the more it is influenced by the information coming from the above-mentioned regions and the less independent it is in prices formation. The dependence from the real-time information is so high now that it is no use to orient towards newspapers; this information is uncompetitive in the conditions when the latest information is the key motive for the majority of the market players. Technical analysis of fictitious value dynamics is not effective any more in Intraday trade in conditions of the modern stock exchange technologies based on the diverse real-time information; trends can be used with the horizon of several weeks.

With the consideration of all the above mentioned we can make a conclusion that fictitious value as a substantial base of fictitious capital is the most adequate to the requirements of an effective capital market. The nature of such value is rather peculiar. According to K. Marx during the development of forms of value the commodity in equivalent form reflected the value of other commodities because it possessed such value. On the contrary fictitious capital reflects alien value as "its own value" and represents such value on the market as its own value in spite of the fact that it does not have and can not have its own value; fictitious capital in its nature does not have any value.

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