

# Metaphor of Taoist “Tao” philosophy for the Fictitious Capital Theories

——An Investigation Based on Economic Philosophy

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**Abstract:** In the past ten years, Chinese economic life has witnessed the emergence of the interaction between the entity economy and fictitious economy, and between the entity capital and the fictitious capital as well as their fluctuations. Such phenomena have attracted great attention from some non-mainstream economists in China. In the light of economic philosophy, their research has incorporated the Taoist “Tao” metaphor and is moving towards the “Tao” value orientation and methodology. Chinese scholars have perceived the correlation between the “root” of the modern economics and the ancient “Tao” philosophy in the past ten years. The paper attempts to use the “Tao” philosophy to re-explore into the idea of “three factors of capital” advanced by this author recently and raises the issue of the “capital delineating”. The paper offers a tentative interpretation of the structure and cycling of the entity capital and the fictitious capital using a yin yang capital model and the Taiji picture of capital.

**Key words:** Entity Capital; Fictitious Capital; Three Factors of Capitals; Yin Yang Picture of Capital Structure; Taiji Picture of Capital

## I Marxian Fictitious Capital Theory and metaphor of Taoist “Tao” philosophy

Fictitious Capital was first defined in Marx No.5 piece of 3 volume of *profit divided into interests and major income enterprise of Capital*,<sup>①</sup> in the book he pointed out that “The bond is still a pure capital of fictitious capital; the illusion of this capital will disappear once the bonds can’t be sold.” However, we will

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<sup>①</sup>Marx putted forward the concept of "fictitious capital" from the financial point of view on Capital (III), which is the "fiktives kapital" in German with the false and unreal implications. At present, Chinese scholars followed the Marx concept on "fictitious capital", but I think that the "virtual capital" is more accurate, because the "virtual capital" is substantial, not false and unreal, it related closely with the human mind, not only reflects the financial capital with people's expectations and confidence, but also reflects the human capital, intellect capital, social capital and other capital with people's imagination, creativity, practice, network. As Chinese scholars follow the concept of "fictitious capital", I still use the concept of "fictitious capital" in the paper so as to consistent with the academic.

immediately learn that such Fictitious Capital has its unique movement. He also argued “the formation of Fictitious Capital was called Capitalization.” The Fictitious Capital theories analyzed by Marx were mainly focused on bonds and stocks of financial capital scopes. Present Chinese non-mainstream economic scholars also discuss this issue centered on financial capital scopes. Research scopes mainly refer to bonds, stocks, futures and other financial derivatives. It is interesting that China's "fictitious capital" theory has not been accepted by mainstream economics and is still in non-mainstream status, but it has attracted the attention of Chinese leaders, and has been absorbed into the economic strategy. The report of Chinese Communist Party's Sixteenth National Congress put firstly forward to "properly handle the relation between the virtual economy and real economy" In 2002.

In my personal view, research on fictitious capital can not be constrained to financial capital scopes. Definition of human capital and intellectual capital theories essentially put forward the problem of fictitious capital from micro perspective. Fictitious capital refers to physical form without traditional capital, while it can actually determine the future income flow and have capital characteristics. In the meantime, introduction of human capital and intellectual capital conducted Capitalization pricing on human resources and intellect which were regarded as fees, cost or physical form articles without traditional capital so as to determine its expectation of future income flow. It should be the new development of Marxian Fictitious Capital Theory in contemporary time.

From the angle of economic philosophy, Chinese scholars exploration between entity economy and fictitious economy as well as entity capital and fictitious capital, theory of which enriches philosophy of Chinese Taoist “Tao” and contains philosophic metaphor of Taoist “Tao” of Chinese ancient sages. Regarding metaphor, Geoffrey M. Hodgson said: “metaphor is not a sort of ornament: it is an indispensable means for constitution and classification of our thought”. A series of “miracles” and problems emerging in contemporary economic tendency and china’s economic development have presented a series of elusive riddles. Particularly the global financial economic crisis incurred by deviation between American fictitious economy and entity economy demanded people to rethink on traditional economics and make scientific interpretation on new economic phenomenon. Contemporary socioeconomic development tide is increasingly oriented to develop from the direction of metaphor of Taoist “Tao” of Chinese ancient sages while Chinese ancient Taoist philosophy enlightens our economics’ innovation.

## **II During the change, all the things have their backs to the feminine and stand facing the masculine: Watershed between entity capital and fictitious capital**

With the coming of knowledge economy, economics is ushering new era. All kinds of signs show that new economy is triggering a revolution of capital theory and capitals in terms of material capital, human capital, intellectual capital, social capital, cultural capital and institution capital etc emerged. With extending of new research

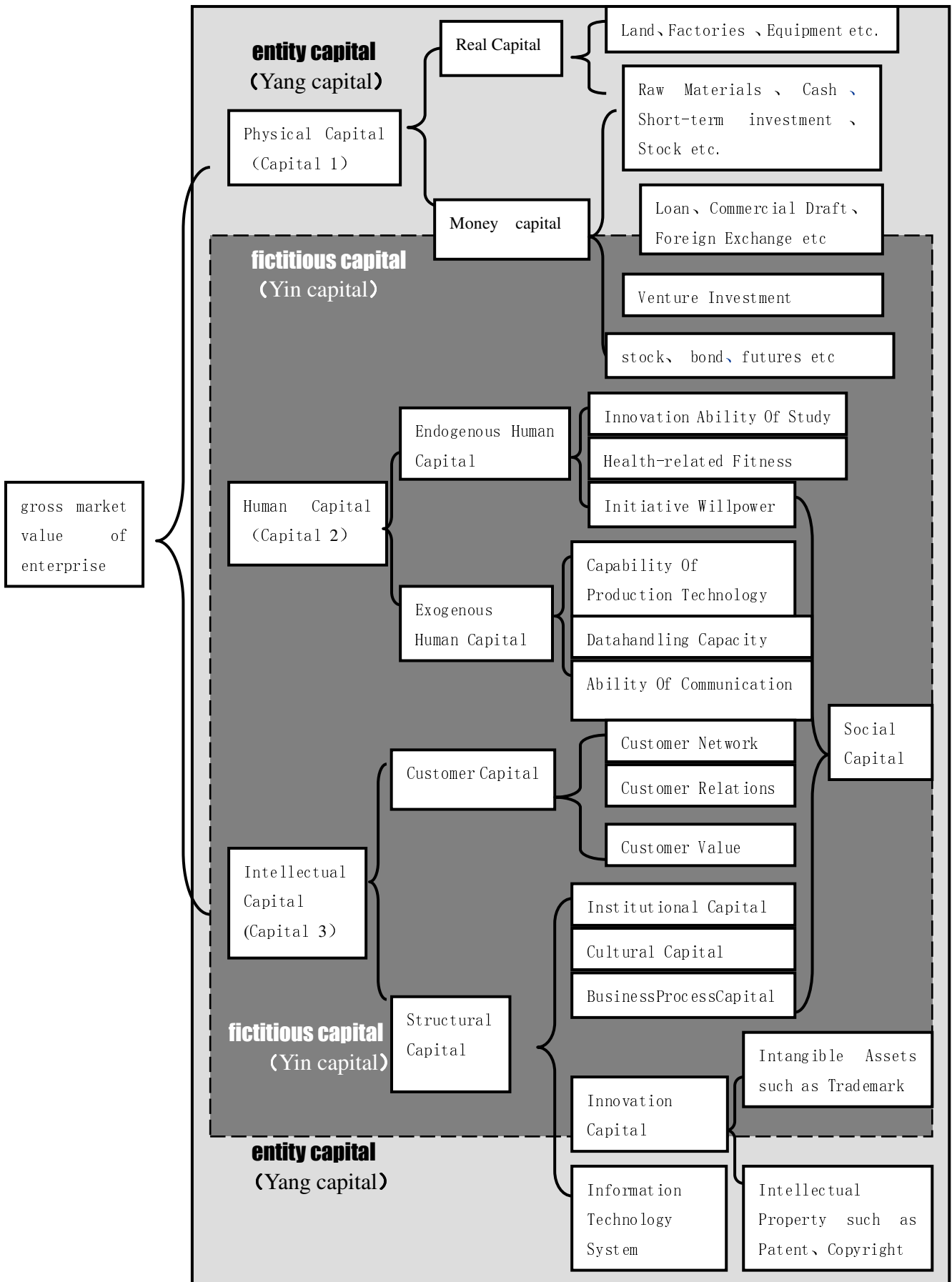
realm and introduction of a series of new concepts, economists may feel confused. A fundamental problem pressing for economists to approach is the issue of capital watershed. Whereas concerning the solving of issue of capital watershed, we should first discuss the fundamental component factor from the angle of principal argumentation and then deduce other capital types based on the capital factor.

From the perspective of principal argumentation, Lao zi's metaphor of "Tao gave birth to the One; the One gave birth to two ; the Two gave birth to three; the Three gave birth to ten thousand things. All things leave behind them the Obscurity' s Yin(out of which they have come), and go forward to embrace the Brightness' s Yang (into which they have emerged), while they are harmonised by the Breath of Move" provided philosophic thinking for contemporary issue of capital watershed. His concept of "the Three gave birth to ten thousand things" reflected Three Factors of Capitals, namely, material capital, human capital and intellect capital as fundamental factor and the original power to facilitate social development of human beings (The author argued this perspective in the article of *Taoist interpretation on entity economy and fictitious economy*.) Although the concept of capital emerged in the wake of birth of market economy, it accompanied human to develop from ancient time to present time. It is well acknowledged that Taoist Way is extensively applied in general public but less learnt by people. It is the interaction among Three Factors of Capitals that created everything of mankind society and propel human development from husbandry era to today's information society, which firmly proved the Laozi's profound thought of "the One gave birth to two ; the Two gave birth to three; the Three gave birth to ten thousand things".

If integrating Laozi's metaphor of "All things leave behind them the Obscurity' s Yin(out of which they have come), and go forward to embrace the Brightness' s Yang (into which they have emerged)" with the research on entity capital and fictitious capital we can scientifically clarify the issue of capital watershed. Laozi said "All things leave behind them the Obscurity' s Yin(out of which they have come), and go forward to embrace the Brightness' s Yang (into which they have emerged), while they are harmonised by the Breath of Move" . Capital still belongs to the realm of everything, hence it absolutely embodies the attribute of "All things leave behind them the Obscurity's Yin, and go forward to embrace the Brightness's Yang", Chinese non-mainstream scholar's analysis on entity capital and fictitious capital has fully reflected this opinion.

Generally, capital that people called refers to entity capital (material capital) which is composed of physical capital and currency capital. It is hard capital which is visible and touchable; we define it as Yang capital. However, we think that fictitious capital should include human capital, intellect capital and financial capital; we also define it as Yin capital because it is soft capital which is invisible and unpredictable.

In the following contents, the author try Ying and Yang structure to analyze and specify the boundary and relationship between entity capital and fictitious capital based on Three Factors of Capitals of material capital, human capital and intellect capital. To this end, the author presents a structure model of entity capital and fictitious capital (Please see picture one).



**picture one — Yin Yang Picture of Capital Structure**

We can see from picture one: Three Factors of Capitals of material capital (capital 1), human capital (capital 2) and intellect capital (capital 3) etc can be divided into two parts (1) Yang attribute (light color) entity capital; (2) Yin attribute (deep color) fictitious capital. Entity capital consists of physical capital and currency capital; fictitious capital is mainly composed of human capital, intellect capital.

On the basis of this clarification, we can deduce a series of new capital concepts and forms like financial capital, social capital, institution capital, customer capital, cultural capital and innovation capital etc. we can clearly differentiate the structure and layer of fictitious capital and entity capital and conspicuously clarify their boundary and relationship from the picture.

We can learn from picture one: the boundary of fictitious capital and entity capital can be differentiated, but some factors of them can be inter-converted in fictitious capital and entity capital. For instance, currency capital belongs to entity capital of Yang attribute but it can be converted into financial capital such as bank lending capital, stocks, bonds and future etc, after that it forms fictitious capital of Yin attribute. Therefore, the author specify currency capital at the boundary of entity capital and fictitious capital; innovation capital of intellect capital belongs to fictitious capital of Yin attribute, when it converts into intellectual property rights like patent and copy right etc, in the wake of that it converts into entity capital of Yang attribute, they are also specified at the boundary of entity capital and fictitious capital.

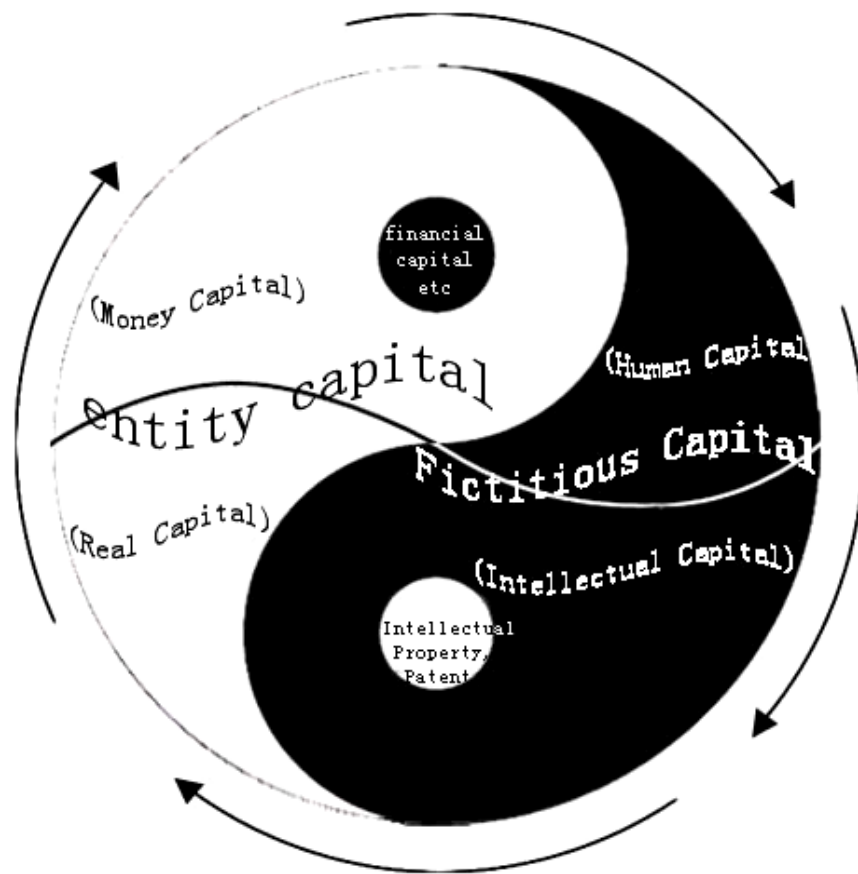
### **III The deduction of Taiji Picture of Capital and circling outlook of entity capital and fictitious capital**

#### **i Taiji Picture of Capital**

Laozi's remarks in *The Classic Book of Tao and Teh* "Tao gave birth to the One; the One gave birth to two ; the Two gave birth to three; the Three gave birth to ten thousand things. All things leave behind them the Obscurity' s Yin, and go forward to embrace the Brightness' s Yang, while they are harmonised by the Breath of Move", which is actually regarded as a perfect interpretation to Taiji Picture. Taiji Picture is an important picture for studying the principle of *The Book of Change* because it contains common law of every. Hence some people call it mode of cosmos and lighthouse of science. During the process of demarcation of Yin Yang Structure Model of entity capital and fictitious capital, the author comprehended suddenly that this kind of demarcation would be more concise and persuasive if using Taiji Picture to depict it. (Please see picture two).

If we see capital as a Yin-Yang Taiji (Yin-Yang Taiji fish), Yang part represents entity capital while Yin part represents fictitious capital. The author divides the Yang part into two categories: physical capital and currency capital; Yin part: human capital and intellect capital.

Firstly, entity capital of Yang attribute shows that the flow direction of fund determines orientation of economic development due to the pace-setting role of contemporary economic currency capital. Consequently the author put the currency



**picture two--- Taiji Picture of Capital**

on the head of the Yang fish whereas physical on the end of the Yang fish (entity capital). Most importantly, fish eye of Yang fish is feminine, soft, formless and unpredictable financial capital demarcated in the fish's eye, which is perfectly and vividly illustrated the conversion of currency capital of Yang attribute or the nature of financial capital of Yin attribute and represented the conversion of entity capital or the relationship of fictitious capital with Yang including Yin.

Secondly, in view of fictitious capital of Yin attribute, intellect capital play a leading role in contemporary economy and it become the powerhouse of nowadays economic development, resulting in people's growing feeling of intellect capital overweighting human capital. Therefore, the author demarcates intellect capital on the fish head of Taiji Yin fish (fictitious capital), human capital on the end of the fish, which is in subordinate position. Yin fish's eye is Yang attribute which is paramount. Intellect capital like information system, patent, copy rights and IPR etc derived from innovation capital belong to Yang attribute capital is just demarcated here. It appropriately reflects conversion of intellect capital of Yin attribute or relationship of inclusion of the nature of innovation capital like information system, patent, copy rights etc and also the conversion of fictitious capital or the relationship of entity capital with Yin including Yang.

Thirdly, Yin and Yang can continue to be demarcated between entity capital and fictitious capital. In entity capital, physical capital is Yang attribute and currency capital is Yin attribute; in fictitious capital, intellect capital Yang attribute, human capital Yin attribute. By this, they can be further demarcated.

**ii “Through union with the life force they blend in harmony” :Circling outlook of entity capital and fictitious capital**

Taiji Picture of Capital can be regarded as a way to reflect “Wuji produced Taiji, Taiji produced Liangyi and Liangyi produced Sixiang” from economics view. Looking back human development history, capital was emerged from nothingness. Nevertheless, capital can be divided into entity capital and fictitious capital. From today’s perspective, it is the Yin and Yang interaction between entity capital and fictitious capital that has boosted growing development of human society. Though the word “capital” were emerged late in mankind history, as Taoist “Tao” it accompanied human being from ancient time to nowadays.

Zhuangzi said: “I learnt Yin and Yang”, “I also herald harmony of Yin and Yang”, which profoundly expressed ancient sages’ comprehension of complementary, coordination and balance on Yin and Yang as well as seek of harmony of Yin and Yang. To play a wonderful music, it is necessary to play musical instruments in accordance with the yin and yang of "harmony"; similarly, only response to reconcile and comply with the yin and yang can meet the needs of everything.

Here the author would like to present a new outlook of capital cycling. We can comprehend capital cycling of entity capital and fictitious capital of an enterprise or a country (please see picture two) if learning “Tao” of new capital cycling from the perspective of “through union with the life force they blend in harmony”.

Economic development stems from the integration and interaction of entity capital and fictitious capital, namely, the union of Yin capital and Yang capital. Integration and interaction of Three Factors of Capitals including material capital (physical capital and currency capital), human capital and intellect capital first promoted the growth and development of physical capital so as to further expedite the development and flourishing of currency capital; development and flourishing of currency capital signified wealth, further advancing constant improvement of people’s material living and cultural education. It irrefutably promotes the growth and development of human resources; the growth and development of human resources will advance theoretical innovation and scientific and technological revolution and promote the expansion and development of intellect capital; the expansion and development of intellect capital will further promote the enrichment and growth of physical capital in contrary. Rising and dropping as well as fluctuation and balance of entity capital and fictitious capital constitute different economic cycle; by cycling like this Taiji Picture of Capital has briefly and gracefully described human being’s socioeconomic development scenery.

It is must be emphasized that our new outlook of capital mainly concerns: the cycling developing goal of entity capital and fictitious capital is to achieve “harmony” via good interactive relationship. Only by attaining “During the change, all the things

have their backs to the feminine and stand facing the masculine. Through union with the life force they blend in harmony” can an enterprise or a country materialize sustainable development. Whereas attaining this goal, it is of vital importance implementing “surplus one should give while deficient one should get” to accomplish harmony and promptly adjust economic policies and rules.

Last but not least, the author would like to arrive at conclusion by quoting chapter eleven of *The Classic Book of Tao and Teh*.

“The thirty spokes unite in the one nave; but it is on the empty space (for the axle), that the use of the wheel depends. Clay is fashioned into vessels; but it is on their empty hollowness, that their use depends. The door and windows are cut out (from the walls) to form an apartment; but it is on the empty space (within), that its use depends. Therefore, what has a (positive) existence serves for profitable adaptation, and what has not that for (actual) usefulness”.

Laozi used three comparisons to interpret the relationship between “existence” and “nothingness”, “entity” and “fictitious” in this chapter. Hence “existence” – tangible things (entity) has brought benefits and convenience to mankind whereas “nothingness” – intangible things (fictitious) have greater effects. It is “nothingness (fictitious)” that enables “existence (entity)” to play its role. Laozi used this to explain that effects of materials can be taken in that coexistence and integration of “existence (entity)” and “nothingness (fictitious)”.

Mr. Cheng Siwei former vice Chairman of Standing Committee of National People’s Congress stressed in an article *exploration on fictitious economy*: “From the perspective of systematic science, fictitious economy is correspondent to entity economy and both of them are existing economic activity (including structure and evolution) mode in economic system. Entity economy can be compared to the hardware of economy; fictitious economy the software of economy. They are interdependent. It could unequivocally reflect Chinese ancient Taoist “Tao” from the angle of economics. In the times of industrious economy, people attached importance to entity economy with “entity” overweighing “fictitious”. Fictitious economy plays its role in information economy. Therefore, only “existence” and “nothingness” coexists and “Yin” and “Yang” integrates, “during the change, all the things have their backs to the feminine and stand facing the masculine. Through union with the life force they blend in harmony” can ensure harmonious human socioeconomic development.

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