Fulcrum

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fictitious capital.

Our task is precisely to liberate building activity from the aesthetic speculation of developers and to make it once again the only thing it should be, namely, BUILDING.
Mies van der Rohe, 1923.

Legend has it that the chandeliers and marble fireplaces in the AA represent a strategic backstop to bankruptcy: if the school was ever to run out of cash (which it has flirted with in the distant past), we could always borrow emergency funds against the material fabric of the Association. They look like ornaments, but they are actually a form of latent equity.

The flipside of the same logic is what has led developers in London to add value to projects by arbitrarily installing multiple mantelpieces. A prominent real estate agent in West London confided to Fulcrum that for every £2000 fireplace stuck on a wall (with no chimney, of course) the property's price tag went up £20,000. We laughed heartily, as he threw brochures across the desk for 400ft² (40m²) flats featuring six 'Georgianesque' marble mantles.

There are two types of capital, so Marx tells us in volume three of that eponymous tome. The first is 'real capital,' which is attached to physical production and labour. It may also be concentrated as 'money-capital' which relates to real things, as with savings, or reserves of gold. Real capital exists in and for the present, being bound up in the everyday actualities of economic production and consumption.

By contrast, 'fictitious capital is the alter-ego of reality: it is totally divorced from any exchange value, although it nonetheless has a capacity to magically produce more of itself. It does this because fictitious capital is not money *per se*, but the *promise* of money — a promise that allows the unknown possibilities of the future to be rationalised and warp-drived to the present. Fictitious capital has one seriously sinister aspect, and that is a power of dissimulation: it is not always evident which form capital has taken. That is, whether it is real or fake. At face value an IOU for £50 and a £50 bank note resemble each other closely. Neither is backed by any commodity, no safety deposit gold bar, no wheat sheaf in the marketplace. They're just bits of paper.

However, to imagine that unsecuritised currency is always identical would be a gross mistake. The £50 note belongs to this moment; it is pure and unequivocal purchasing power. Against this, the IOU points somewhere else: to the future... but to a very specific future, one in which the immanent existence of the £50 is undisputed. What happens to the IOU if the issuer dies? Or a meteorite erases humanity? How can we have trust that a promissory note will be honoured? This problem is as old as the first Dutch stock markets of the 17th century.

In short, the endless struggle by capitalism to rationalise the unpredictable necessitates that we treat the future as only another type of present.

The difference between real and fake becomes somewhat more pronounced when the action of the fictitious capital on the world is taken into account. Imagine you use the IOU to make an investment, which then accrues interest. The interest is real, even if the capital is not. In this case the promise of money has been used to generate profit.

Intuitively, we understand that many aspects of today's economy must rely heavily on fictitious capital. The example above essentially describes how stocks, bonds and shares function — and we're all aware of the unrivalled primacy of the financial markets in international economic activity.

Sometimes fictitious capital can take more nebulous forms. Since 2008, the Bank of England (BoE)has printed £375bn of new money (through a programme of 'quantitate easing' or QE), all of which has been sucked up into the City of London without a trace. After quite a lengthy investigation the BoE discovered that all this fresh cash — instead of being used to fund loans for new factories, small businesses and infrastructural projects — had been used to make the biggest banks' balance sheets look healthier, so they could make even more risky bets in the financial markets.

The new money, which was created by simply by adding zeros into a computer programme, had been invested into markets that were themselves unconnected from the real production of goods and services. The whole QE programme, far from driving a manufacturing and trade recovery, has artificially inflated an already largely meaningless and abstract fiscal system.

Just like Monopoly, this hilariously tragic game of imaginary money could not exist without little houses — many of them filled with marble fireplaces. What makes London's current housing crisis so unique is that it has moved into a totally unprecedented domain of speculation. In a standard market, only people with a personal interest in real estate would be active: those selling houses, and those buying them. If there are relatively few people doing this, the difference between asking price and the offer price (what's called the market spread) will be quite high. Initially, the entry of a speculator into the market can have beneficial effects, as their attempts to profit from the spread will bring the asking price and offer figure closer together. In other words, small numbers of speculators can keep markets real, by helping supply and demand to flow smoothly through optimal prices.

Things get messy when the total volume of speculative trades outweighs the actual mediation of supply and demand: when speculators are speculating against other speculators. The real value of the house begins to become obscured by the abstract value speculators have attributed to it. This can lead to bubbles, as rising prices fuel further confidence and more speculators get into the market, causing still higher prices. Sooner or later, someone influential will be all like 'this is ridiculous,' and the market will crash. Unfortunately, it is the real actors in the market, people who actually do want to just buy or sell their homes, who are often the most affected by this volatility.

All the major economic collapses of the last hundred years, and there have been many, were caused by property bubbles. They take a very long time to build up, and they take just as long to pop and deflate. Therefore, the UK's economic stability is basically reliant on careful control of speculators in the real estate markets.

What makes London different from traditional bubble models is that the speculators don't seem to care that they are the only ones operating in the market: last year 85% of prime London property purchases were made by foreigners. Most of them paid cash, and most of them will not occupy the properties they bought. In certain parts of town, where the mean house price exceeds £5m (like Kensington & Chelsea), the majority of these homes won't be occupied at all. They are in fact not houses, they are safety deposit boxes.

Very few markets can remain stable with a percentage of speculators this high, yet the major financial institutions in the City still claim the extreme growth is not a long-term bubble, but a good investment opportunity. This will remain the case only for as long as London retains its status as a tax haven for the persecuted global rich (especially those of Russia and Europe).

The most important task for London's architects today is to work out how to remove real estate from the property markets in such high volumes that it triggers a crash. Architects must consider their agency as an economic weapon for readjusting the markets in line with actual supply and demand.

We might imagine many ways in which to achieve this. All of them involve conceiving architecture as a primarily a political, economic and juridical design praxis — not simply a spatial, or aesthetic one. The financial conditions of architecture, and their economic impact on the populace, must be incorporated into design as automatically as environmental considerations or contextual studies. Sustainability must come to mean something more profound than gadgets and solar path diagrams; it must first of all signify financial and social sustainability, with a view towards equality and justice. The speculative dimension of real estate is the greatest threat to prosperity. As long as we cannot eradicate it from our civilisation we cannot hope to achieve any meaningful progress.

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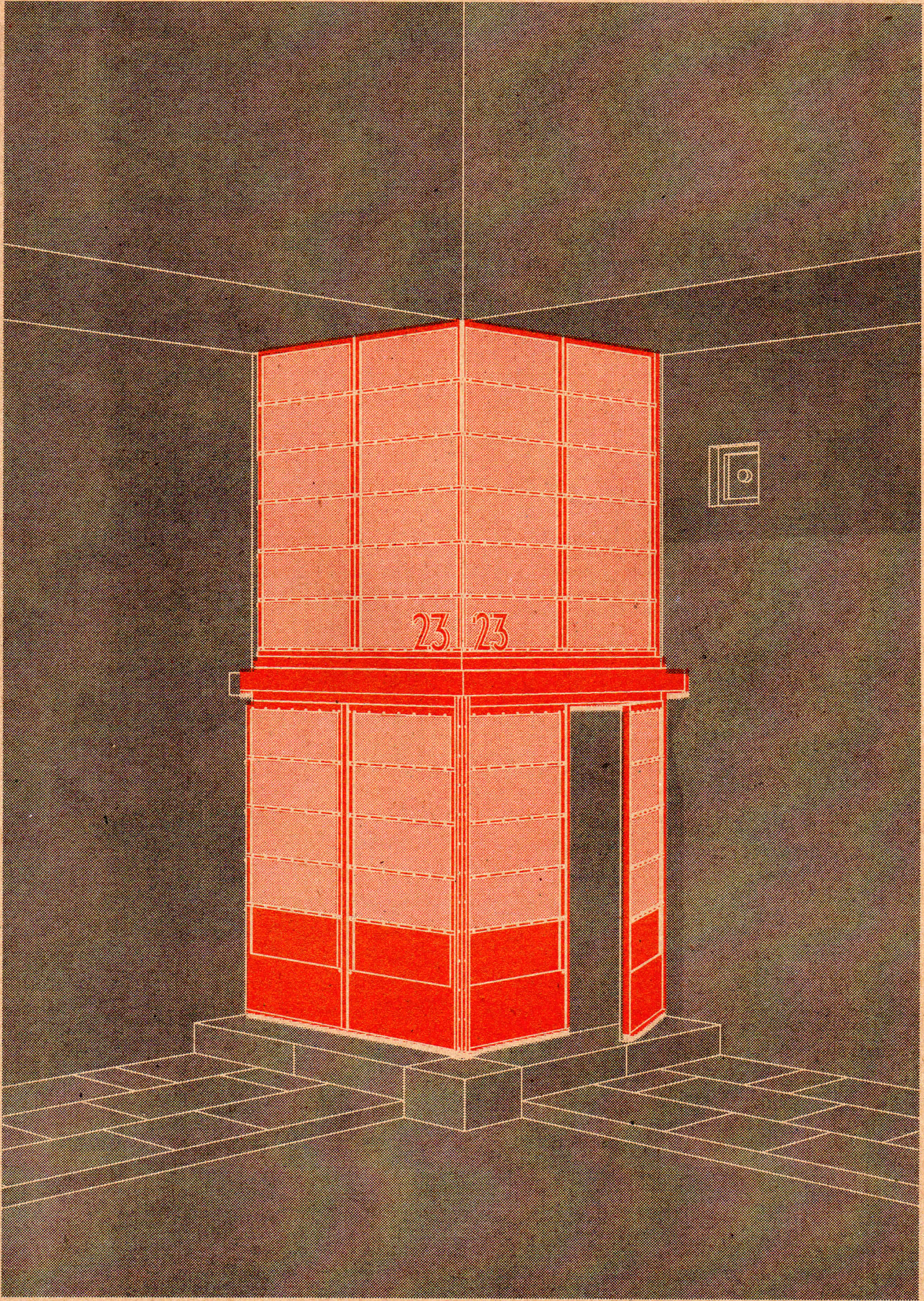

Open door to the Karlmarxhof, Vienna.