

# Capitalism, Money and Inequality in the World

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## 1. Introduction

There is little doubt that, in the last hundred years or so, progress has been made in lifting more people out of extreme poverty (World Bank 2020). Yet, considerable economic inequalities both within and between nations persists and, as recent work has shown, if the rate of return on capital surpasses the rate of growth, inherited wealth will grow faster than earned wealth (Piketty 2014, p. 1). Together, these inequalities contribute to radically different life chances for people around the world. For some it means multiple mansions, private jets, hundred-foot yachts and access to life-saving technologies, while for a substantial portion of humanity it means a daily struggle just to survive or maintain a livelihood. However, why this radical inequality exists is not altogether clear and is much debated in the academic literature and popular press (Atkinson 2015; Di Muzio 2015a, 2015b; Milanovic 2016; Stiglitz 2016). Moreover, some view economic inequality as natural and beneficial since it is reasoned that the less well-off will want to emulate the wealthy and thus work harder to achieve their goals. However, is gross inequality rooted in human nature or is it the result of certain ways of organizing society and certain policy choices regarding the human economy? While it cannot possibly canvass the enormous literature on capitalism, money and inequality, this chapter will suggest that it is the latter by considering the important relationship between capitalism and money to explain the persistence of economic inequality in our world. The chapter also asks what can be done to lessen global economic inequalities once we gain a deeper appreciation of the relationship between capitalism, money and inequality. I will argue that it is too often forgotten that, while economic growth over the last three centuries has lifted many people out of extreme poverty, that capitalism is primarily an economic, monetary *and* accounting system whose very aim is to generate income and wealth inequality, not level the economic playing field. To explore this argument and examine potential solutions to lessening financial inequality, this chapter is divided into three main sections. In the first section, the chapter provides an explanation for the historical rise of capitalism, what constitutes capitalism as a specific politico-economic system and how economically unequal our world is today. In the second part of this chapter,

a theoretical analysis of how we might consider the relationship between capitalism, money and inequality is developed. In the final section, the chapter explores what is to be done about economic inequality from both mainstream and radical perspectives and argues that there are indeed some plausible public policy initiatives that would work towards achieving objective 10 of the Sustainable Development Goals (SDGs).

## **2. The Rise of Capitalism and Inequality**

It is important to note that capitalists did not invent inequality or social hierarchies. In history, most complex civilizational orders were arranged hierarchically based upon a minority of rulers and a majority of ruled. To be sure, economic arrangements differed between political communities but once population size and the division of labour expanded, hierarchies started to appear. Not surprisingly, those at the apex of the social hierarchy enjoyed greater benefits than their counterparts doing the majority of the work at the base of the hierarchy. The glue that reproduced these social hierarchies consisted of the threat of violence or punishment, spectacle, ritual and tradition and religious cosmology. However, there is something unique about capitalist hierarchy (Nitzan and Bichler 2009, p. 271). Capitalism is a distinct socio-economic system that is primarily about the accumulation of money and, theoretically, anyone can become a capitalist. Compare this to earlier social formations where it was near impossible for a serf to become a lord or a peasant a king. The historical origins of capitalism are hotly debated but we can argue that there are two main views (for an overview of the literature too long to cite here, see Wood 2002). First, some scholars see capitalism as emerging first in the rural countryside of England. Here, it is argued, waves of enclosures from the thirteenth century onwards saw the peasantry dispossessed of their customary right to access land for subsistence. The abolition of these rights not only created a race of landless paupers but allowed lords of estates to transform their property into money-making enterprises largely based upon the wool trade. They did so by hiring capitalist tenant farmers, who in turn hired wage-labourers to work the land. Surveyors would estimate the monetary value of what the land could yield and leases were based on the expected future profit of the land. If these expectations were not met, the lease could be awarded to another capitalist tenant farmer. According to this view, the threat of losing a livelihood through the competitive tenure of a leasehold motivated capitalist tenant farmers to become ever more innovative and productive. This logic of productivity and improvement tied to the accumulation of money, it is reasoned, spilled over into the industrial production of commodities by exploited wage-workers directed by capitalist owners and their managers. To

summarize, in this view, capitalism emerged from a transformation in social property relations creating a class of capitalist owners of land and the means of production and a working class who had nothing to sell but their own labour-power (Polanyi 1959).

The second take on the emergence of capitalism does not deny that a transformation in social property relations needs to take place for the full development of capitalism, but objects that the desire to accumulate money originated in England or that capitalism is synonymous with industrialization. To be sure, a more geographically extensive capitalism certainly implies that people are dissociated from the means of production and subsistence so that they are forced to work for wages for survival and a livelihood. However, a transformation in property relations is viewed as far too restrictive and too one-sided in this second view. It is too restrictive in that it locates or 'freezes' the origins of capitalism in the English countryside rather than seeing it as emerging in inter-societal fashion (Anievas and Nişancıoğlu 2015, p. 24). It is too one-sided because it tends to conflate capitalism with the industrial revolution so that the only 'true' capitalism is about the production of commodities by workers who are not paid the full value of their labour-power during the production process (Di Muzio and Dow 2017, p. 7). There is no doubt that capitalism entails the production of goods and services for sale on the market, but if we were to take a bird's eye view of capitalism we would find that the act of capitalizing on income-generating assets is the primary ritual of capitalists (Nitzan and Bichler 2009, p. 270). This view does not conflate capitalism with industrial production and frees us to see that capitalists may invest in a portfolio of income-generating assets in order to seek a return on investment. For example, the Royal African Company (RAC founded in 1660 in England) was originally capitalized by its investors to find gold on the west coast of Africa and, when that enterprise proved a loss-making endeavour, the company turned to supplying African slaves to the 'new world' as the chief source of its profits (Scott 1903). Thus, investors in the RAC capitalized the power of the chartered company to enslave Africans and transport them abroad with the value of their investments contingent upon the profitability of this horrific enterprise. For the Marxist purist, this is not capitalism proper because it is not the industrial production of commodities for sale on the market to realize a profit. However, from the Braudelien view, investing for profit in the slave trade certainly constitutes capitalist practice. As Braudel cautioned:

On a world scale, we should avoid the over-simple image often presented of capitalism passing through various stages of growth, from trade to finance to industry—with the mature industrial phase seen as the only true capitalism. In the so-called merchant or commercial capitalism phase, as

in the so-called industrial phase, the essential characteristics of capitalism was its capacity to slip at a moment's notice from one form or sector to another, in times of crisis or of pronounced decline in profit rates (Braudel 1983, p. 433).

As this passage suggests, it may be more fruitful to understand capitalism from the point of view of ownership and capitalization rather than simple industrial production. Capitalists, who make more money from their investments or ownership claims over income-generating assets than they do from their labour, can have a diversified portfolio with different rates of return. What this suggests is that we focus on *differential accumulation* rather than accumulation per se (Nitzan and Bichler 2009). Capitalists endeavour to have the value of their capitalization of owned income-generating assets rise faster than an average rate of return such as the S&P 500. This is one of the major reasons for economic inequality: *differential ownership*.

First, most people in the world do not own any income-generating assets and second, not all capitalists own the same assets. Therefore, by logical extension, some will make greater returns than others depending on what they own. Here, we must recall that ownership implies exclusion and exclusion provides capitalists the power to accumulate differentially. To some, this may sound rather abstract, so let me provide a quick example. Suppose there are three people: the first person owns nothing other than their capacity to work, a second person owns 100 shares in Amazon but is still reliant on a wage for her livelihood and a third, Jeff Bezos, founded Amazon and is reported to own 54 million shares in the company. If our first individual is fortunate, they will be able to gain employment and earn an income from their labour and maybe one day start a business of their own. At the time of this writing, our second person will still have to work for a living but owns USD 309,500 worth of Amazon stock. Jeff Bezos' ownership claims, however, amount to USD 167 billion, making him the richest man on the planet. In this example we can begin to see how *differential ownership* claims to income-generating assets and thus exclusion (some cannot afford to own or purchase enough shares) can generate vast financial inequality.<sup>1</sup> From this point of view, we can proffer a clear analytical definition of capitalism:

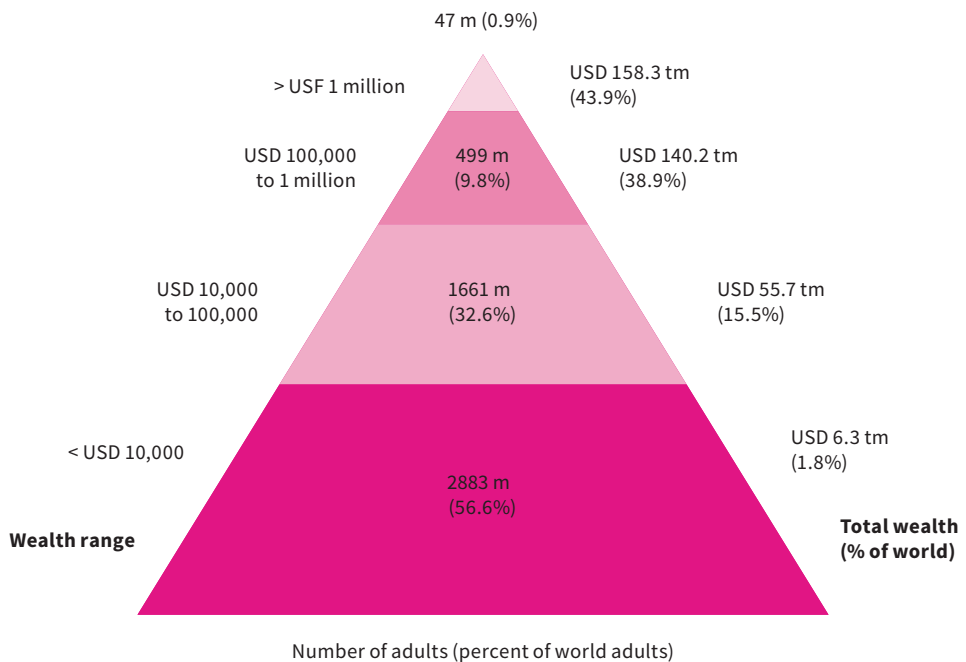
Capitalism is a politico-economic system premised on the social property relations between hierarchically arranged owners and non-owners whereby

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<sup>1</sup> This is largely what worried Piketty: if the rate of return on capital grows faster than the rate of GDP.

income-generating assets are differentially capitalized based on the institutional power of business and governments to generate income streams by shaping and reshaping the landscape of social reproduction through the market and price system. To be a capitalist, then, is to be an owner/investor in income-generating assets, with the difference between capitalists largely stemming from the monetary value of their capitalization or claims on future earnings (Di Muzio and Dow 2017, p. 9).

Thus, the distribution of ownership can tell us quite a bit about the inequality of wealth. However, just how unequal is our world by wealth? To find this out, we can turn to large financial institutions such as *Credit Suisse* and their annual wealth reports. To be considered ‘wealthy’ or what financial institutions call ‘high-net worth individuals’ is to have at least USD 1 million in investible assets. With this in mind, let us visualize the global distribution of wealth in Figure 1.



**Figure 1.** The inequality of global wealth. Source: Figure reprinted from (Credit Suisse 2019, p. 9).

As is clear from the empirical data, the inequality of wealth is stark: a tiny fraction of the adult population of the world—the top 10.7%—own about 83% of all

global wealth. The bottom 56.6% of humanity own a mere 1.8% of the world's wealth. However, while a focus on differential ownership under capitalism is important for understanding why the world is so unequal by wealth, it is also important to consider the relationship between capitalism, money and inequality. Only then, this chapter will argue, can we start to consider *some* policy options for reducing economic inequality, the tenth objective of the Sustainable Development Goals.

### 3. Capitalism, Money and Inequality

There is perhaps no more ubiquitous complaint among the majority of the world's population than the dearth of money. There never seems to be enough. Strangely, this is true for the very rich, who go on accumulating money even when they have enough to last multiple lifetimes, as it is for the poor struggling to make ends meet. If money is central to a capitalist economy and capitalism is largely about accumulating money, then why do we not know more about how new money is produced (Kraemer et al. 2020)?<sup>2</sup> Mainstream economists think of money as a 'neutral veil' and focus on the *roles* played by money such as a means of exchange for goods and services, a store of value for potential future use, and a unit of measure to price wages, the ownership of assets and liabilities, and goods and services (Ingham 2004, p. 8). These are all important roles that money plays in a capitalist economy but, from a more critical perspective, we could say that money is a representation of power and empowerment since it is primarily a claim on society and natural resources—the more you have, the more you can claim so long as there is not hyperinflation (Di Muzio and Robbins 2016, 2017, 2020). Poverty and inequality are relative and can mean many things to different people, but in an economy where people are reliant on the market for their subsistence, survival and 'the good life', poverty and inequality are largely about access to money and how much money people have to spend and save. This is why it is important to understand how new money is generated or produced in a capitalist economy.

There are only three theories on new money creation and one of them has to be correct (Di Muzio and Robbins 2017; McLeay et al. 2014; Ryan-Collins et al. 2014; Werner 2014). One theory explains that commercial banks have no special powers and that they merely take in money from savers and use a portion of this money to lend to willing borrowers. In this sense, they are merely intermediaries and do not

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<sup>2</sup> See also the documentary 97% Owned. <https://www.youtube.com/watch?v=HLgwe63QyU4> (accessed on 29 April 2021).

create new money. The second theory suggests that banks create money through a fractional reserve system. In this version of money creation, savers deposit money in a commercial bank, the bank is legislated to hold a certain percentage of the money as a 'reserve' but can lend out the rest of the money. What both theories have in common is that *money has to be deposited or saved in a bank before the banks can begin lending*. We now know these two theories are wrong (for a detailed empirical and logical critique of these theories see, Di Muzio and Noble 2017). Rather than deposits creating new money as loans, *it is loans that create deposits*. This is the theory of credit creation and it argues that most new money entering the economy is the product of commercial banks making loans to willing borrowers—be they governments, businesses or individuals. This money enters the economy as both a credit (to the borrower) and a debt (owed back to the bank by the borrower with interest). It is important to note here that in most advanced capitalist economies, the majority of the money supply is digital (numbers in computers), not physical notes and coins. Notes and coins are typically produced on behalf of governments but only make up a tiny fraction of the money supply in advanced capitalist economies. What this means is that *credit creation* is extremely important for understanding the relationship between capitalism and economic inequality.

The first problem with the way new money is produced as loans to borrowers is that commercial banks typically issue new loans based on the income and assets of a borrower and their past experience servicing their debts (i.e., their credit rating). What this suggests is that people, businesses and governments have *unequal access* to credit and repay their loans at unequal interest rates. To put it simply, it is much easier for the already wealthy to borrow to expand their wealth than it is for their poorer counterparts. To provide but one example of how economic and financial inequality can be exacerbated within this system of money creation, consider the manager of a hedge fund. A hedge fund pools together the money of the very wealthy and uses riskier investment strategies to earn their clients a higher rate of return than an average benchmark return, such as the S&P 500. The hedge fund manager receives a certain percentage of the overall return and typically a bonus. Since hedge funds start off with an enormous amount of capital, they can borrow significant amounts of money from a commercial bank to bolster their returns. Consider the following example:

USD 1 billion (initial capital) with a rate of return of 10% = USD 100,000,000 million return.

USD 1 billion (initial capital) + USD 5 billion (borrowed) = USD 6 billion with a rate of return of 10% = USD 600,000,000 million return.

In this brief example we can start to see how the unequal access to credit can exacerbate inequality by making the already wealthy wealthier. However, what about making the poor poorer?

The second major problem is that, other than microcredit schemes which have an uneven record, the poorest on earth have virtually no access to credit, therefore making it more difficult to build any wealth as the statistics above attest to (Bateman et al. 2018). However, even in richer countries where the working class or the working poor may have some access to credit (e.g., a credit card, pay day loans, car loans) inequality can be exacerbated in at least two major ways. The first is that lenders may charge higher rates of interest for borrowers who are deemed riskier clients. What this means is that more of their income goes to service the interest of creditors rather than the principal of the debt leading to: (1) perpetual debt service and the inability to accumulate wealth and, (2) potential default and thus a lesser credit rating and greater difficulty for borrowing in future.

A third major problem is to consider the role of government. To recall, while governments do have purview over the production of notes and coins, most modern money is digital and created by commercial banks. What this means is that if a government wants to spend more than it takes in in taxes, fines, fees and the privatization of public assets, then it is compelled to borrow money. It can do this in two main ways: (1) from the capital markets by selling government securities at interest or (2) by taking on debt with the central bank. However, how can government borrowing contribute to the exacerbation of economic inequality? If governments continue to borrow and record yearly deficits that contribute to a mounting national debt, it can be subject to austerity measures by the IMF, World Bank and the US Treasury or can impose austerity across the public sector by its own sovereign right to govern. This can mean increasing unemployment in the public sector, the sale of publicly owned assets to private investors and cutbacks in social spending and programs that help the most vulnerable in a society. Since the poor and working classes are typically the chief beneficiaries of social spending, cutbacks can further intensify unequal outcomes and life chances among the lower rungs of the socio-economic hierarchy (Soederberg 2014). Indeed, there is direct link between the policies of neoliberal austerity and government debt that favours creditors over debtors and the rich over the poor (Di Muzio and Robbins 2016; George 1988). In sum, unequal access to credit on unequal terms, lack of access to credit and neoliberal austerity measures all serve to intensify economic and financial inequality both within and between nations. However, there are additional problems that can compound inequality that have to do with the way new money is created



and capitalist accounting. We must be aware of these issues before we can consider *some* proposals on what can be done to lessen economic inequality both within and between nations.

In addition to unequal access to credit on differential terms (i.e., lower or higher interest rates), there is the problem of how credit is created by commercial banks. When banks extend loans to willing borrowers, they do not create the interest, only the principal. What this means is that there is always more debt in our economies than there is the ability to repay the banks without going further into debt. This helps us to explain why on an aggregate level, with some exceptions, national, business and individual debt keeps mounting. If this sounds difficult to grasp, consider a simple example in Table 1.

**Table 1.** More money owed than in circulation.

Loan	Interest	Total New Money	Total Owed
USD 1000	5%	USD 1000	USD 1050
USD 1000	21%	USD 1000	USD 1210
USD 1000	10%	USD 1000	USD 1100
		<b>USD 3000</b>	<b>USD 3360</b>

Source: Table by author.

In this example, a commercial bank has made three loans each worth USD 1000. The interest rates differ as does the total money owed by each individual taking out the loan. However, the interesting thing to note is that only USD 3000 worth of new money has been created with a demand that the bank be repaid a total of USD 3360 from all three borrowers. The additional USD 360 owed as interest is not created by the commercial bank, thereby meaning there is always more debt in the economy than there is the ability to repay. Obviously, this is a simple example, but it can be logically extrapolated to a national or the global economy—there is never enough money to repay all the debts accumulated without generating new debts to service and potentially repay some previous loans. Thus, servicing existing debt can only come from two sources: (1) someone else’s principal, or (2) new money entering the economy as debt. But why is this important for understanding economic inequality? It is important because default and bankruptcy are built into capitalist money creation by commercial banks. In Table 2, I list how the failure to service debts or even repay them can have severe consequences for economic inequality.

**Table 2.** The debt trap.

Individuals/Families	Businesses	Governments
<ul style="list-style-type: none"><li>• Loss of access to future credit;</li><li>• Access to future credit on stricter terms (i.e., higher interest rates);</li><li>• Sale of personal items to earn money to service debt;</li><li>• Loss of assets (i.e., a dwelling or land).</li></ul>	<ul style="list-style-type: none"><li>• Loss of access to future credit;</li><li>• Access to future credit on stricter terms (i.e., higher interest rates);</li><li>• Sale of assets to repay creditors;</li><li>• Loss of the business as a going concern.</li></ul>	<ul style="list-style-type: none"><li>• Loss of access to future credit;</li><li>• Access to future credit on stricter terms (i.e., higher interest rates);</li><li>• Sale of public assets to service debt and 'balance the books';</li><li>• Cuts in social spending and programs that benefit the most vulnerable.</li></ul>

Source: Table by author.

However, this way of creating new money is not the only mechanism that can exacerbate inequality, for we have to ask the question: why is there not enough money in our economies to circulate the goods and services produced? In other words, why must we go into debt for the economy to keep out of recession? The answer lies in capitalist accounting and the gap between salaries and wages and the price value of all goods and services outstanding or Gross Domestic Product. It is true that supply and demand for goods and services can have an impact on the price for those goods and services. For example, if a certain good is not selling very well, a company may want to cut the price. Similarly, if a certain good is selling very well, they may want to mark-up the price in future. However, while supply and demand are important for understanding price formation, we also have to understand that capitalism is a cost-plus-profit system whereby corporations determine the cost of their goods and services and then add a mark-up. Mark-ups of course vary, but the more powerful the corporation, the more likely they will be able to demand higher prices for their products. These mark-ups are set by industry convention or the profit targets of major firms and often both. However, the worry for us here is the cost-plus-profit nature of capitalist accounting and what this means for debt and purchasing power (Di Muzio and Robbins 2020). To pry open Pandora's Box, let us imagine a simple but illustrative example of a firm that produces apple juice. Table 3 details its costs for 1000 jugs of apple juice.

**Table 3.** Capitalist cost-plus accounting.

Input	Cost
Apples	USD 200
Plastic Jugs	USD 100
Electricity	USD 100
Labour	USD 500
<b>Total Cost</b>	<b>USD 900</b>

Source: Table by author.

In this illustration, the total cost of producing 1000 jugs of apple juice is USD 900 or USD 0.90 cents per jug. Quite obviously, the company will not sell its jugs at cost or below cost and will add a mark-up to be profitable. Suppose the company wants a 100% mark-up on its product or USD 1.80 for each jug and this goes out on the market. The total value of the apple juice on the market would be USD 1800 (USD  $1.80 \times 1000$ ). We can now start to see the problem.<sup>3</sup> The cost of goods outstanding on the market is USD 1800 while the purchasing power created by the company (the labour component) is only USD 500. We can extrapolate this type of accounting to every capitalist firm and can now visualize that there is never enough purchasing power created by companies to clear all the goods and services produced. Figure 2 charts this fact for the largest economy in the world by GDP, the United States.

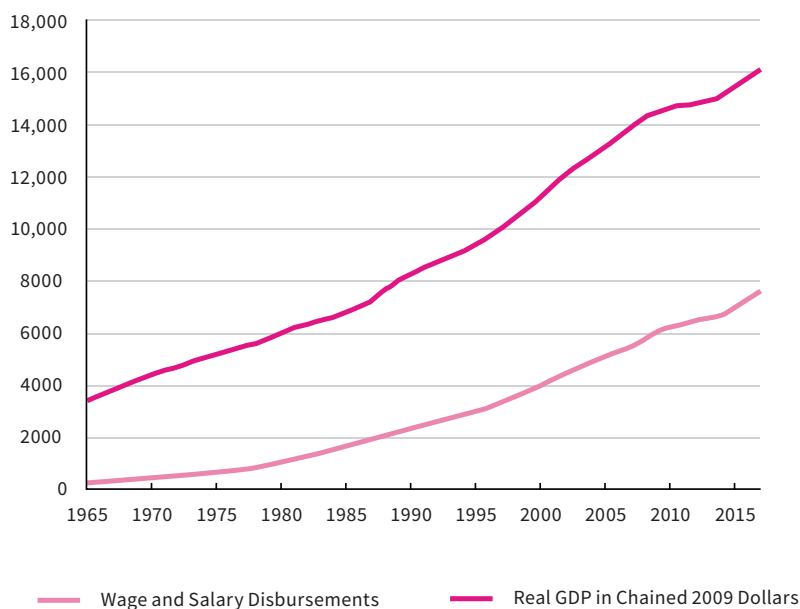
As is plain to see from Figure 2, there is a massive gap between purchasing power (wage and salary disbursements) and real GDP. The lack of purchasing power in the economy—what Keynesians call aggregate demand or what Marxists call demand backed by ability to pay—is embedded in capitalist accounting. Thus, the only way people, businesses and governments can spend more than what they have earned to keep the economy out of recession and depression is by going into debt to commercial banks. This very basic but overlooked fact can thus worsen inequality as per our discussion above as people are compelled to ‘live beyond their means’ by accessing credit, thereby compounding the perpetual debt problem.

Now that we have some knowledge of the relationship between capitalism, money and inequality, we can move on to exploring what is to be done about economic inequality from both mainstream and radical perspectives. In the next

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<sup>3</sup> Major C.H. Douglas was the first to notice this and advocate for a social dividend. He was the founder of the social credit movement (for an overview see Hutchinson and Burkitt 1997).

section, I will argue that there are indeed some plausible public policy initiatives that would work towards achieving objective 10 of the Sustainable Development Goals (SDGs). As this is a chapter focusing on money, inequality and capitalism, it is impossible to survey all proposals for reducing inequality (see Atkinson 2015).



**Figure 2.** Wages and salaries vs. real GDP. Source: St. Louis Federal Reserve<sup>4</sup>.

#### 4. What is to be Done?

Assuming that global capitalism will not disappear overnight and be replaced by a more humane and human-centred economy that overturns current monetary and fiscal arrangements, in this section we ask: what can be done from a public policy standpoint to lessen income and wealth inequality? There are of course many potential options, but I will consider four here—two mainstream and two more radical options.

The first mainstream option is to continue to deepen and extend neoliberal policies in the hope that our economic liberals are correct that capitalism will eventually lift all boats. In this vision of a future world, governments continue to encourage a positive investment climate for private enterprise and incentivize entrepreneurialism across the social spectrum by cutting red tape and implementing

business-friendly policies.<sup>5</sup> In such a scenario, it is reasoned that businesses will help secure greater economic growth so that there will be more and more of the economic pie to divide. Put simply, the neoliberal capitalism option argues that to reduce economic inequality, governments have to enact policies that encourage the private sector to grow the economic pie (Hamilton 2004). There are three main problems with this option. First, neoliberal policies are largely associated with mounting government debt and do nothing to change current fiscal and monetary order. Second, economic growth on a finite planet of resources is a chimera; there are indeed limits to how much our economies can grow. For instance, we know that if everyone wanted to consume at the rate of an individual American, we would need about four planets worth of resources.<sup>6</sup> Finally, we do have the option of waiting around for greater economic growth but there is real suffering in the world due to poverty and inequality now, and as Keynes famously said, 'in the long run, we are all dead.' Therefore, there are some good reasons for not waiting around and considering alternatives to neoliberalism.

The second mainstream option is some ramped up version of Keynesianism. To be sure, while many scholars have chronicled the turn away from Keynesianism to neoliberalism since the crises of the 1970s, it is doubtful how 'neoliberalized' many states have become. For example, the legacy of Keynes' policy suggestions can still be seen as operational in many states through their welfare policies and automatic stabilizers (e.g., graduated income taxes, unemployment insurance and welfare). In other words, claims that the welfare states built up in the heartland of capitalism after World War Two have been completely dismantled do not ring entirely true. However, what would a ramped-up version of Keynesianism look like? It would largely be focused on alleviating poverty and inequality through the redistribution of income and wealth (Atkinson 2015; Piketty 2014; Stiglitz 2016). Taxes on higher incomes, wealth and inheritance could be increased to make the rich pay for a greater proportion of taxation. This would allow governments to redistribute more resources from the rich to the poor and alleviate, if not eliminate, egregious economic inequality. While laudable in some respects, there are some considerable problems with this approach to mitigating inequality. First, many of the very wealthy would be reluctant to pay higher taxes for a number of reasons, up to and including the fact that they feel they have earned their incomes and wealth.

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<sup>5</sup> <https://www.worldbank.org/en/topic/investment-climate> (accessed on 30 April 2021).

<sup>6</sup> <https://www.bbc.com/news/magazine-33133712> (accessed on 8 October 2020).

Furthermore, depending on the political system, the wealthy can influence policy options through political donations and personal connections. Second, capital is more mobile today because of the greater liberalization of capital controls since the turn to neoliberalism. What this suggests is that higher taxes on income and wealth may lead to capital fleeing to more favourable political jurisdictions. This can cause a drain on a government's resources and may lead to a greater national debt should governments wish to spend more than they take in taxes, fines and fees. Third, the presence of offshore tax havens and correspondent banking make it more difficult for governments to capture a greater share of taxation from the wealthy. Indeed, it is already estimated that there is USD 32 trillion stowed away in offshore jurisdictions.<sup>7</sup> To avoid capital flight and close offshore tax havens would require international cooperation of the highest order and, like battling climate change, is not impossible, but unlikely to happen in any immediate or concerted way. Finally, while there is some indication that Keynes knew that commercial banks created the vast majority of new money by making loans, he eventually turned from this position and advocated the bank as an intermediary model (Werner 2014, p. 16). What this means is that Keynes thought that savings are the ultimate source of loans and thus did not challenge the monetary and fiscal order. This is a significant oversight in Keynesian and much of post-Keynesian thought as it does not consider monetary reform and what this might mean for fiscal policy and the level of inequality (Wray 2015).<sup>8</sup> This leads us to consider more radical options.

The first radical option is to introduce sovereign money and a social dividend (Huber 2017). We must recall that allowing banks to create the vast majority of new money as debt is not a natural phenomenon, but a historical creation born of class and power relations that date back to the creation of the Bank of England (Di Muzio and Robbins 2016, p. 38ff). As a historical creation, this means we can create a new institution that serves the public better than current arrangements, while there are various proposals of how to organize sovereign money; at its base, it denies the power of commercial banks to create new money through legislation and empowers a quasi-independent public bank to issue new money as interest free credit to governments, businesses and individuals. Such a public body would still

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<sup>7</sup> <https://www.reuters.com/article/us-offshore-wealth-idUSBRE86L03U20120722> (accessed on 8 October 2020).

<sup>8</sup> Many neo-Keynesians do, however, take the position of what they laboriously call 'endogenous money'—a concept that does recognize that commercial banks create most new money (see Moore 1979).

have to monitor for inflationary tendencies through a consumer price index, but would have a number of benefits for alleviating the worse scourges of poverty and inequality and may even promote worthwhile social and environmental goals.

First, sovereign money would mean that governments do not have to borrow to spend on meaningful public projects that would be proposed during the election cycle. This would mean an end to deficits, the national debt and the bond market. Political parties vying for power will have to convince the democratic public of their spending priorities and, once elected, the quasi-independent public bank can issue interest-free credit to the treasury based on the government's political mandate and budget. This has the further benefit of lessening taxes on everybody, leaving more income and wealth in the pockets of the people. Taxes can still be used to incentivize beneficial economic activities (e.g., renewable energy, sustainable agriculture, public transport) and disincentivize those activities deemed socially harmful (e.g., smoking, sugary meals, excessive fossil fuel use). Thus, taxation would be used as a social policy tool, not as a primary revenue generator.

Second, national priorities should be set for how the quasi-independent public bank should issue credit to private businesses. This can include environmental and social goals such as the promotion of renewable energy, the production of sustainable and durable goods, increased regional resilience through the promotion of sustainable farming and agriculture, the creation of more public space for leisure and the provision of affordable public housing, to name just a few worthwhile goals. One chief benefit of business not going into debt is that the cost of interest will not be pushed on to consumers in the price of goods and services, thus reducing rather than inflating prices. Either way, crediting businesses should pass some sort of democratically decided test based on the relative merits of the projects for the public and future generations.

Third, if we keep the capitalist accounting system of cost-plus-profit, we know that there will not be enough purchasing power in the economy to meet the outstanding prices of goods and services on the market. To overcome this structural gap, the quasi-independent public bank should issue a social dividend to all citizens of a certain democratically decided age.<sup>9</sup> The monetary value of this credit should be tied to the productivity of the economy and will mean that citizens will not have to take on debt or save for the future to realize a reasonable standard of living. People

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<sup>9</sup> This resembles Atkinson's sixth proposal for reducing inequality: <https://www.tony-atkinson.com/the-15-proposals-from-tony-atkinsons-inequality-what-can-be-done/> (accessed on 29 April 2021).

can and will still work for an income and be able to save money, but the social dividend will likely mean that they will work at more meaningful jobs and can have more leisure time. Moreover, less work might help alleviate environmental stress and will drastically lessen economic inequality and eliminate poverty. Indeed, at a democratically decided age, individuals will be permitted to legally retire should they wish and receive a state credit that keeps them at a respectable standard of living.

While the above is only a cursory discussion on the merits of sovereign money and a social dividend, we must at least consider some possible obstacles and drawbacks of such a sweeping reform. The first obstacle is that transitioning to a sovereign money system and social dividend will require significant public education since the present system has been naturalized and taken as self-evident for centuries (Kraemer et al. 2020). There is little doubt that a portion of the population may be sceptical or ill-informed of such an agenda. For instance, Switzerland held a referendum on sovereign money in 2018 and it failed due largely to a lack of public education and confusion over how the reforms would work<sup>10</sup>. The second obstacle is largely how to initiate and organize such a massive institutional reform, but doing so in a slow, measured and democratic manner may help the success of reforms. As for potential drawbacks, some may claim that undisciplined government spending may lead to inflation. However, political parties will still have to have a budget presented to the electorate, the quasi-independent public bank will monitor inflation and interest-free credit should reduce, rather than inflate prices. A second potential drawback is that some may argue that a social dividend may lead to universal laziness and the collapse of the national economy. This point of view assumes that the vast majority of people have little to no desire to work because it is a burden. This is a bold claim to make since it discounts the fact that, as social creatures imbued with creativity, work is indeed a part of our subjectivity and one of the avenues we can gain meaning from life, while some may choose not to work and live off the social dividend, it is unlikely that the vast majority would do so. Finally, it should be recognized that the government would still have the ability to tax the population and discourage people from not working at all (unless retired) or encourage people to work in certain (perhaps unsavoury jobs) by providing monetary or tax incentives. Either way, there is much to debate but continuing with the present monetary and

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<sup>10</sup> <https://www.positivemoney.eu/2018/07/lessons-switzerland-referendum-vollgeld-sovereign-money/> (accessed on 30 April 2021)



fiscal system combined with capitalist accounting threatens to prolong unnecessary poverty and inequality.

The final radical proposal for lessening inequality between nations rather than within them, is for high GDP governments to compel rich creditors to cancel or significantly reduce the foreign debts of the poorest countries. Where there is not endemic corruption, the elimination of foreign debts or their significant reduction would lessen the tax burden of developing countries. Such an act could provide developing country governments with more policy room to manoeuvre and support their poorest populations with necessary social programs such as in education and health, providing greater capabilities and opportunities for their citizens. How this can be accomplished can be debated but lessening foreign debt loads would certainly help provide developing governments with more resources. In addition to this, if high GDP governments are serious about reducing economic inequality, they should consider an internationally organized effort to provide foreign aid in their currencies to developing country businesses and governments. As in the public bank proposal mentioned above, aid can be targeted towards certain projects that are deemed publicly beneficial by the communities that will receive the aid. This can be accomplished through participatory budgeting with local and national community input.

As in the above proposals, there are also obstacles and drawbacks. The major obstacle would be convincing creditors to agree to a cancellation of debt, or a significant reduction in money owed. However, this might be incentivized in some way by rich governments providing tax reductions to creditors. Another obstacle might be how to organize and coordinate foreign aid, but this obstacle is not insurmountable with considerable planning by the governments involved.

## 5. Conclusions

There is no perfect or politically straightforward way to reduce economic inequality and eliminate poverty in capitalist economies. It should always be remembered that the very aim of capitalism—*differential accumulation*—is to create greater inequality of ownership and money. To the extent that there is a semblance of economic equality or social mobility in this or that nation largely comes down to government intervention and fiscal policy measures that redistribute wealth rather than the price mechanism of the market. However, this chapter has argued that if we start to understand the connections between capitalism, money creation and inequality, we can arrive at some interesting policy options for reducing inequality that go well beyond conventional thinking. I have argued that the mainstream

approaches to reducing economic inequality—neoliberalism (grow the economic pie) and Keynesianism (redistribute wealth from rich to poor)—do not and cannot go far enough in remedying the financial disparity we find within and between nations. We cannot solve the problem of economic inequality with the same old ideas. If we could do so, economic inequality would be a thing of the past. Radical reform in how money is created and distributed and the cancellation of developing country debt up to and including targeted foreign aid are required if we want to achieve the 10th objective of the Sustainable Development Goals. The alternative is a world awash in debt, increasing economic inequality, and the misery of needless poverty in a rich world. We are the most productive society in all of human history and there is no technical need for dearth amidst plenty.

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