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# Why are the rich getting richer while the poor stay poor?

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> "Everybody knows the fight was fixed
> The poor stay poor, the rich get rich
> That's how it goes
> Everybody knows" (Leonard Cohen).

## Introduction

Thomas Piketty's (2014) striking best-seller with his largely researched and data-based debunking of the post-war optimism and the so-called Kuznets Curve[1] pointing to a supposedly automatic reduction of inequality in the advanced industrial nations, as well as the growing wealth-inequality in both mature and developing countries, has brought the discussions about wealth-distribution again to the forefront in economics. And not just in academia, but for the public at large and the media, now that the divide between the so-called 99% and 1% of the world's population keeps growing.

In this paper, I aim to build on Piketty's findings and particularly on identifying one and probably the main factors contributing to this increasing income gap between rich and poor. While Piketty's answer that the rate of return on capital has historically exceeded the rate of return on income and output is sustained by the impressive amount of data he considers, it nevertheless does not shed sufficient light on why it is so. Particularly, there are two aspects which I believe are important to consider and to deepen while talking about wealth-distribution and how people in our contemporary world acquire wealth in the first place.

On one hand, Piketty and others take a very broad definition of capital and by doing so – as well for methodological and practical difficulties – he does not clearly distinguish between various kinds of capital income like rent, financial profits, dividends, royalties and other capital gains in his statistical analysis. Particularly, as will be argued here, Piketty's book does not shed a light on a crucial distinction between capital gains derived from productive capital investments from those resulting from purely speculative gains. It does not distinguish between incomes deriving from producing different and new wealth from those resulting from the mere increase in prices of properties like land, real estate, artwork, antiquities, collectables, stocks and other financial instruments and goods. By not distinguishing between these different sources of capital income, Piketty does not sufficiently highlight the role of monetary inflation resulting from the steady increase in the money supply as an increasingly important factor leading to the growing income gap between the "have and the have-not", the growing poor and the enriching rich and super-rich of the world population.

[1] This question is largely discussed in Piketty's book. While Kuznets hypothesized that industrializing nations experience a rise and subsequent decline in economic inequality, following a supposedly "Bell-shaped curve", particularly after the 1970s a steady increase in inequality could be observed both in newly industrializing as well as in advanced industrial societies, as shown by numerous studies and data.

As will be argued, a great part – and increasingly so – of the capital gains result from an inflationary increase in the monetary value of given financial assets and not from productive employment of capital, generating both capital-income and new wealth on its wake. Thus, we overlook the effect of the different kinds of capital both in fostering or not overall economic activity and the effect of that which has been termed "financialisation" on the wealth-inequalities in our contemporary world. "A pattern of accumulation in which profits accrue primarily through financial channels rather than through trade and commodity production", as defined by Greta Krippner following Arrighi (Arrighi 1994; Krippner 2005, p. 174).

While in the case of capital invested in productive and commercial activities we may observe a larger appropriation of newly created wealth by some in proportion to that gained by others, but still growing wealth for all in global terms; a completely different picture emerges when we look at the speculative financial gains obtained from buying and selling financial assets at a profit. Here, no new wealth is created and thus, at the aggregate level, we have a net transfer of the existing wealth to those who managed to effectively obtain speculative gains from their capital at the expenses of those who don't and who do not possess speculatively invested savings.

A second aspect which is not considered by Piketty and by economists at large even when talking about "wealth distribution" issues has to do with the very definition of wealth and what we are talking about in the first place. Adam Smith, when inaugurating modern economics with his *An Inquiry into the origins and causes of the Wealth of Nations*, already defined "wealth" in terms of use-values, as related to a way of "being" and which manifests itself by consuming and having access to the right satisfiers (Max-Neef et al., 1989), rather than related to "having", acquiring and accumulating exchange-values as such. It has to do with the way we define, experience and satiate our needs, not with the amount of money we possess.[2] As Smith stated (1937[1776], p. 30), "every man is rich or poor according to the degree in which he can afford to enjoy the necessaries, conveniences, and amusements of human life." This leads him and those economists who followed him, including Neoclassic and Marxist economists as well, to consider *wealth* as such in terms of use-values and not in terms of exchange-values, as Aristotle (1999, pp. 14-15) already had done more than two millennia before.

Notwithstanding, modern economists – starting with Smith himself, right after defining "wealth" in use-value terms – by focusing on the quantitative and the market-related dimension of the economic process, ended-up considering wealth in purely chrematistic, monetary terms, ignoring both its physical and its culturally and psychologically subjective dimension. This is important once, while productive capital may be defined as related to producing "new" and/or more use-values in the existing real-world economy, speculative capital merely relates to the monetary dimension of the economic process, to a relative increase in the exchange-value of given financial assets. While the former results from productive use of capital, the latter results only from a change in the exchange-value of some goods relative to others, thus altering the purchasing power of some at the expenses of others.

[2] This question is developed more in depth in my recently published book (Stahel, 2020, chapter 3.10, pp. 510-542) in which the question of needs is addressed more in depth, how they are defined in our modern world and how they are central to the very definition of development, wealth, sustainability and indeed economic theory.

**Money and capital in the 20th century**

As already Aristotle (1999, p. 14) noticed,

> "a shoe is used for wear and is used for exchange; both are uses of the shoe. He who gives a shoe in exchange for money or food to him who wants one, does indeed use the shoe as a shoe, but this is not its proper or primary purpose, for a shoe is not made to be an object of barter."

Historically in all human society, at a given moment, some use-values – from shells to salt, stones or metals – would be used as coins, that is something which is accepted in exchange to be used on another future exchange down the line. Thus, the use-value of commodity money is no longer its primary, but his secondary use, namely to serve as exchange-value instead. It may still be used for its primary purpose, but as long as there are an agreement and trust in its use as a means for exchange being accepted by buyers and sellers, it becomes money. Part of the salt received as a salary may eventually be used for cooking, another part used as money to acquire the vegetables to be cooked. As were cigarettes during war-times or in prisons used as money or used to be smoked.

But to understand the broader effects of this use of certain goods or services as exchange-value instead of its primary use, we may still follow Aristotle (Ibid., p. 15):

> "once the use of coin had been discovered, out of the barter of necessary articles arose the art of wealth-getting, namely retail trade; which was at first probably a simple matter, but became more complicated as soon as men learned by experience whence and by what exchanges the greatest profit might be made."

From here, as Aristotle concluded and Marx put at the centre of his definition of capital, two kinds of exchanges emerged: buying for selling (hopefully at a profit) or buying for consuming, having sold to acquire the needed money to buy that which is needed to try to satisfy a felt need.[3] In the latter, money is just a means for exchange, placed between two different use-values, while in the former it becomes an end in itself, being used for its secondary purpose and aimed at an increase in exchange-values.

By introducing money as an intermediate link between two different commodities ($C_1 – M – C_2$) facilitating an exchange between two different use-values, you also open the doors for putting a commodity as an intermediate link between two exchange-values, the aim being to increase your capital ($M_1 – C – M_2$ aiming to get $M_2 > M_1$). Thus, what the Greek called

[3] Formally Marx portrayed the first one as $M_1 – C – M_2$ aiming to get $M_2 > M_1$ (money here being used to buy a commodity which is later to be resold at a profit), while in the latter we have $C_1 – M – C_2$ (here a commodity is sold in order to earn the money needed to acquire another, different commodity with it). In the first case, the aim is quantitative, the intervening quality of the commodity not being of the essence, being just a mean-to-an-end, while in the second case it is the qualitative difference between the commodity possessed at the beginning of the circuit with respect to the one acquired at the end which is of the essence. Exchanging something you need less in order to acquire something you desire more. In both cases, the intermediating link is just a means-to-an-end. It could as well be removed, as it happens for financial capital when you have interest-bearing money (exchanging present money for a future higher quantity, $M_1 – M_2$, where $M_2 > M_1$) or direct barter for the second case, whereby a given quantity of a certain good or service is given in exchange for other, different, goods and/or services, thus acquiring different use-values ($C_1 – C_2$, where $C_1 \neq C_2$). See Marx, Karl (1867/2015). *Capital - A Critique of Political Economy* - Volume I. Moscow: Progress Publishers, chapters 2 and 3, pp. 60-77.

chrematistics and Aristotle defined as “the art of acquisition” was born. Acquiring different use-values by exchanging $C_1$ for $C_2$ to satisfy your consumption needs or acquiring more money, that which Aristotle termed “the art of getting rich” by accumulating more exchange-values. In both cases, there is a flux whereby money and commodities become part of a commercial flux, become capital. $M_0 – C_1 – M_1 – C_2 – M_2 – C_3 – M_3$…

As to capital, we may also differentiate alternative forms whereby someone aims to enrich himself accumulating more capital. As commercial capital, money is being used to buy commodities at a given time and space aiming to sell them at a different time and space at a profit. In terms of the intrinsic use-value of that which is being bought and sold, nothing has changed. But by changing the spatial-temporal context of the commodity, new use-values for the consumer are created, the merchant earning his profits from providing this service as an intermediate link between production and consumption. Providing the dislocation of a commodity from one spatial-temporal context to another. Alternatively, capital can assume a productive character by acquiring certain goods and services in the form of resources and production factors, combining and transforming them into new goods and services to be sold at a profit. Thus, be it in the agriculture and other primary sectors aiming to transform nature through human labour, be it in industry or the service sector, new wealth is being produced by combining and transforming existing use-values to produce different use-values to be sold aiming at a profit as well. In both cases, capital is used productively creating new use-values and/or spatial-temporal contexts in which these use-values are realized and manifest their value.

But, there is a third and increasingly important way whereby money can manifest itself, namely as speculative financial capital. Here no changes in the use-value of commodities are attempted, but directly a growth in the exchange-value by exchanging money for hopefully more money, time intervening between the act of giving/lending the money at the beginning of the process and receiving it back added to interest or a financial profit at the end of it. The time-lapse intervening may be as short as those intervening in high-frequency trading or as long as those intervening between some speculative acquisition and selling of great masterworks and real estate. In all these cases, assets are bought not for their primary use (stamps for sending letters, artworks to be admired or grains in future markets to be consumed), but for their exchange-value, as money. Here the commodity is bought not because of its primary use, but as in the example given by Aristotle, for its secondary use, namely as money. Every time capital circulates not as commercial or as industrial capital, creating new use-values in its wake, but is invested hopefully earning more money at a later time, we have money beget more money, ongoing growth and accumulation of exchange-values which is not accompanied by the creation of new wealth in use-value terms. Hoping to gain from the differences in the monetary value at the beginning and the end of the process. $M_1$-$M_2$-$M_3$-$M_4$… Hopefully $M_4>M_1$.

From here we can see that whenever something is acquired not because of its use-value to be consumed by a final consumer, to be transformed by the merchant connecting producers and consumers or by the producer producing new use-values; but is acquired as a speculative investment aimed to be resold or recovered at a profit later, it becomes money. It is financialized. Money’s use-value being that it is accepted and works as an exchange-value. From that perspective, we can see that money may be classified in terms of its degree of liquidity, that is, how easy and fast a good or service can be converted into a medium for exchange. Some forms of money having immediate liquidity – thus a high use-value as money – others not being as readily accepted and/or having to be reconverted into high-

liquidity money first, possessing a lower use-value as money as such. Thus, during wartime, cigarettes often became a form of high liquidity currency as they were a ready means of exchange, even by non-smokers, being as they were widely used and accepted by the community as means for exchange. Nowadays, fiat money issued by central banks has immediate liquidity where they are legal tender or within social contexts in which they are trusted and accepted (like many places outside the US where the US-dollar is accepted for payments nonetheless). The same for electronic money, as the accounting procedure whereby numbers on one account are transferred to another account, being accepted as proof of payment and, nowadays due to information technologies, happen on a global scale almost immediately worldwide.

Once the system is trusted, demand banking accounts are thus of immediate liquidity and count as money: people may withdraw them physically, draw checks on them or use their debit or credit cards to pay the bills. They may even be allowed to draw above their holdings, getting automatic credit from their bank, thus further expanding their liquidity and thus the existing monetary basis. As always, it's use-value as an exchange-value being a matter of trust. Money is accepted in exchange for something else as long as there is the belief that someone else down the line will accept it too in exchange for something else. Notwithstanding, this so-called M1 (that is money with immediate liquidity – paper money – M0 – and demand banking accounts used through payment cards or electronic means) represent just a small part of so-called "global money" today. With the existence of digital money, even physical printed and coined money is just a small proportion of the existing money supply. Indeed, nowadays only around 3-10% of M1 is printed. The rest is just made-up of zeros and ones, virtual electronic money, digital money being created without actually having a physical existence by our public and commercial banking system. It's existence simply being stated by an accounting procedure by the banks. That is also the realm in which, as we will see later, potential infinite growth can happen.

M2, which includes saving accounts and time deposits which can readily be converted into M1, have still high liquidity, while M3 is made-up by further financial assets like funds, with less immediate potential to be used or converted into currencies. Finally, there are physical assets and investments which may spread from jewels and artwork to real estate or even the rights of modern football players. These are all domains in which the "art of getting rich" can be exercised in a potentially infinite way, with higher or lower liquidity. Being valued in chrematistic terms and having been acquired not because of their use-value to be consumed or to be productively transformed, but simply because of their potential exchange-value down the line, they too are all different manifestations of money, that is, the capacity to be used in exchanges for something else. Jewels and gold used in wartime in exchange for food, escape or hiding; an urban apartment given in payment for a countryside estate. Whenever something is acquired not for its primary use-value, but because of its exchange-value, we are using it as money. Be it as a reserve of exchange-value (aiming to preserve our acquisition power), be it speculatively, aiming to increase our chrematistic acquisition capacity. But while financial wealth is potentially infinite, use-values or the so-called real wealth is limited. While there are no limits to the money which may be accumulated in form of zeros and ones in its digital form, there are certainly limits to its physical manifestation and the real wealth which can be obtained for it.

Here it may be important to include the first reflection: nowadays, when talking about "wealth", we look at the number of accumulated exchange-values. Not in terms of real-wealth, use-values. Thus, we overlook the fact that life and wellbeing are relational, they are emergent

realities, not something primarily related to accumulated monetary possessions. What if, let's say, all allegedly existing US-Dollars were to be converted into actual goods and services instead of being kept circulating in the financial markets or as reserves of the different central banks? If the combined financial assets held in US-Dollar denomination were to be used to buy consumer goods and services, we would see that the supposed existing financial wealth of countries and individuals is not matched by the equivalent wealth in existing use-values. The ongoing growth in financial wealth not being matched by the growth in real wealth. Bill Gates, ranked by the Forbes magazine as the second "richest" men in the world, can be taken here as an example. His chrematistic fortune, valued at more than US$ 98 billion,[4] still managed to grow during the Covid-19 pandemic as did the fortunes of other big fortunes, despite the global downturn in the output of goods and services. In physical terms, even if kept in the highest denomination US$ 100,00 bills, his accumulated financial wealth would weight approximately 98 thousand tons and stacked, one on top of the other, would be roughly 9800 km high. Fortunately for him and his fellow billionaires, his wealth consisting mainly of financial assets, there is no need for any large size industrial undertaking just to handle it. Considering that the greatest part of Bill Gates wealth is held by Cascade Investment, a holding and investment company whose investments in stocks of various companies continuously fluctuates according to their market valuations, we can see that Bill Gates' still growing wealth consists mostly of trading values coded by zeros and ones and reflected on the trader's screens. Money begets more money, just changing in its form and liquidity during the process. Growth and any reductions in this wealth can even be followed online on Forbes web-page.[5] Thus, if Aristotle (1999, p. 15) could argue, pointing to the example of King Midas, that gold cannot be a pure measure of wealth once it cannot be eaten, less substance will be found by Bill Gates trying to feed on the bulk of his wealth.

But, and this is the important point, even if Bill Gates made just a 5% per year return on his current wealth (historically he has been doing much better than that, in "good years" more than twice) he would be earning US$ 4.9 billion a year, more than US$ 13.4 million a day, nearly US$ 560 thousand every hour, more than US$ 9 thousand every minute. US$ 155.26 at the ticking of every second, day and night, seven days a week. Just letting his financial investment's monetary value grow. Thus, money begets money and, for the super-rich, on a speed they cannot possibly spend.[6]

Considering that the bulk of his earnings derive from their financial investments, not only are we witnessing a potentially infinite growth process, but one that is not derived from direct productive behaviour and thus is not adding any new real wealth to the world. Not even the coins and bills to count it. Just the result of money begetting more money while changing its skin from one form of exchange-value to another. High liquidity money rapidly being speculatively invested and often converting other assets into money, financial assets, on its wake. Bill Gates, having retired from Microsoft, no longer earns his money by managing and

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[4] As for today, the 29th July 2020. https://www.forbes.com/billionaires/. Potential physical measures of wealth provided by considering single bills weighting 1 gr and being around 0,1mm thick.

[5] These rankings are presented online on the "Today's winners and losers" (https://www.forbes.com/billionaires/list/#version:realtime). That is, a permanent chrematistic race where the only aim is the race itself…

[6] At the time I was writing these lines, 8 February 2020, I just could see that, according to Forbes daily update, Jeff Bezos, currently the world's richest man, earned US$ 1,6 billions just in the last trading day. 16 tonnes should he wish to carry his gains in US$ 100 dollar bills back home, https://www.forbes.com/real-time-billionaires/#1612c9d83d78. These are just some examples to show how disconnected our current chrematistic behaviour has become from the real world, some people earning amounts of money which we can hardly imagine and which they cannot possibly spend or even handle in their physical form.

productively investing his money in Microsoft as he did in the early days, but simply by speculatively buying and selling assets in the financial markets instead. Anything that can be acquired not for its primary purpose, but may be exchanged for more money down the line. Notwithstanding, as money, Bill Gate's and others' financial assets do represent a claim on goods and services in the real economy. As long as they're accepted as money – thus retaining their use-value as exchange-values – they represent Bill Gates purchasing power which, as we all know, represents a real power in our modern market economy in which all kinds of use-values may be acquired in the different markets. Money has, thus, become a self-sustaining and self-reproducing source of power within our contemporary world, just as cancer-cells reproduce autonomously and self-referentially within organisms. It grows in the self-reinforcing financial bubbles and occasionally metastases to other parts of the economic organism. The profits of successful financial speculations being reinvested in other speculative acquisitions, further deepening the financialization of the economy.

**How the poor stay poor and the rich get richer**

This leads us to look in more detail how the "art of acquisition" is nowadays pursued once first fiat money dissociating exchange-values from use-values and then digital money overcoming the last barriers to growth created a new financial context whereby human's economic development happens. Once the money is dissociated from any actual use-value becoming pure, abstract exchange-value instead, money is worth just what someone is willing to give in exchange for it, neither more nor less. One US-Dollar being worth one US-dollar, one British pound being just that: one British pound. Nothing else. By dissociating money from any real-world commodity or event, both money and prices can grow in nominal terms without limits. US$ 39.7 million in 1987 (adjusted according to inflation to 2019 money, around US$ 89.3 million) was the amount of money accepted in exchange for the painting, *Vase with Fifteen Sunflowers,* by Van Gogh.[7] The same money would be worth the combined life production of most living artists as well as their use-value possessions should they be willing to sell it all in a lot. It is certainly far more than Van Gogh ever possessed, having only sold one of his paintings during his life for 400 francs, around US$ 2000 in today's money. Leonardo da Vinci's *Salvatore Mundi* was recently acquired for US$ 450.3 million. Or, said otherwise, its chrematistic value is considered to be worth more than US$ 450 millions by the buyer (once we include fees and taxes). The same painting was sold for a mere £45 in an auction in London in 1958. Back then, it was attributed to one of Leonardo's students and not deemed worth more than that by the potential buyers. It was still sold for just US$ 10,000 in an auction in 2005 when it was not yet accepted as an original. Some years later, after being attributed to Leonardo, it was speculatively bought by a Swiss businessman for US$ 80 million who sold it for another US$ 127.5 million to the Russian oligarch Dmitry E. Rybolovlev, whose family trust has now sold it for a record price. Although the growth in exchange-value terms has been enormous, greatly adding to the financial wealth of those who acquired it along the way, nothing or little changed in use-value terms, except for to whom the painting has been attributed. It is still the same painting and, having been bought for speculative reasons, it will

[7] The auction on which this painting was acquired by Meiji Yasuda Life Insurance Company, part of the Mitsubishi UFJ Financial Group (MUFG) tripled the previous record paid for a painting and inaugurated a new era on speculative acquisition of modern paintings. Since then not just have five other paintings by Van Gogh been sold at higher market prices, but many others as well. Recently, in 2015, paintings by Willem de Koonig (*Interchange*) and Paul Gauguin (*When Will You Marry?*) have been privately sold at values which are supposed to have crossed the US$ 300 million barriers (the exact value has not been disclosed). A list of these paintings can be found online in https://en.wikipedia.org/wiki/List_of_most_expensive_paintings.

mostly if not permanently be kept in a secret safe up until the next auction. That is, negating its primary use-value, which derives from being seen and admired. Increasingly, artwork becoming money as well, its use-value being its potential exchange-value down the line instead.

These examples just show how investing speculatively in assets, monetizing them, can be a source of enormous profits and certainly a fundamental strategy in the chrematistic "art of getting rich". But not just in the stratospheric realms in which some artwork is nowadays speculated with, everywhere we can see how nowadays speculative financial capitals expand looking for other opportunities to grow. To the point that nowadays, financial capitals' self-nurtured chrematistic growth logic, has increasingly taken the upper-hand over the industrial one. Wealthy individuals earning more from the rise in the nominal value of their speculative financial assets than they earn from their industrial assets. Just as Bill Gates and other super-rich do. Even productive corporations like Apple (and others), or governments like Norway or China, have created financial arms whereby their surplus cash is invested speculatively in financial assets. Some even indebting themselves to leverage financial speculation instead of expanding their productive activities. Thus, the huge government Sovereign Wealth Funds who invest in real and financial assets worldwide are all growing not because the governments are saving more public money from taxes and/or lower expenditures, but because the monetary value of their invested financial assets is rising. As an example, what could be called "Apple Capital" had US$ 262bn of assets, US$ 108bn of debt, and had traded US$ 1.6trn of securities between 2011-2017. It had thus, in some measures, roughly half the size of Goldman Sachs. But it still dwarfs in front of Norway's Government Pension Fund with over US$ 1.18trn in assets, the United Arab Emirates whose four main funds have a combined value of over US$ 1,29trn in assets or China, whose four main funds have a combined value of over US$ 1,55trn.[8] Once all these private and public capitals are speculatively invested in financial assets, the combined value of these financial and monetized assets rise. As does the chrematistic wealth of those speculating on them. At the same time, it is a self-reinforcing process. The more people invest in given speculative financial assets, the more their price rises and thus not just the wealth in monetary terms to be reinvested in other speculative financial assets increases, but more investors are attracted to speculatively buy these assets who are being "profitable". From blockchain currency to fancy-named hedge funds, currencies, futures markets or real-estate in trendy neighbourhoods of global cities, everywhere investors flock-in raising the prices and thus the profits of those already inside the bubble to even higher levels.

It is no coincidence either that increasingly "financial gurus" and new internet platforms try to attract small and medium investors to build their income strategies not on producing or supporting the production of new use-values, but on becoming financial speculators themselves. It is there, nowadays, where increasingly people earn their money. Not from producing new use-values, but from the growth of the monetary value of their financial assets. Once Sovereign Funds, the so-called super-rich and big corporations have become big investors in the global financial arenas, not just new commodities become financialized, being bought for their exchange-values instead as for their primary use-value, but the overall value of the financial side of the economy grows in a growing process of financialization of the

[8] See "Apple Capital LLC – Apple should shrink its financial arm before it goes bananas." In *Schumpeter - The Economist*, 28 October 2017. For the Sovereign Wealth Funds estimate based on internet information available December 29th July 2019. An actual list is given at https://www.swfinstitute.org/fund-rankings and https://en.wikipedia.org/wiki/List_of_countries_by_sovereign_wealth_funds.

economy. With the increased use of quantitative easing monetary policies after the 2008 financial crisis, with central banks directly buying government bonds and/or other financial assets, public money and investments have become even more important means for boosting the profits of private speculative financial investments benefiting from the rise in stock-markets and the value of financial assets. At the same time, by investing public money in the financial markets, they do align the interests of public and private investors as financial speculators alike.

Another indirect way whereby public and private speculative interests get aligned results from the fact that high-ranking public servants and particularly power-holding politicians are or may become themselves wealthy people speculatively investing their savings as well in the financial assets. Loosing from their down-fall and gaining from their expansion and growth. Besides, there are the famous revolving doors for which Goldman Sachs is particularly known for. In any case, once no new wealth in use-value terms is being created by the simple rise in the market value of financial or financialized assets, these financial gains represent a net transfer of wealth to the already rich who manage to have invested savings from those who don't. As do the payment by governments of interests on their debt: public money is spent to pay interests to financial investors at the detriment of other public expenses who could be spent to provide public goods and services. The recent decision by the leaders of the European Union to create European bonds issued by the European Commission for a € 750bn Covid-19 rescue package represents, thus, another way whereby public money at least partially ends-up in the pockets of financial speculators once interests start to be paid on them and at the end of the line, a good part of this money ends-up circulating in the financial speculative circles rather than in the real-world, use-values producing economy.

As long as financial gains are reinvested on buying other financial assets or financialized commodities like real estate or even grains, minerals and all kind of future-markets in which assets are bought not because of their primary use-value but as exchange-values instead, what we may observe are inflationary pressures driving-up the prices of these assets and thus the monetary wealth of its possessors. At the same time, each time these possessors convert their potential monetary wealth in actual purchases of goods and services for their consumption, as use-value instead, inflationary pressures are transferred to the "real economy", thus reducing the real wealth of all. The rise in prices of financialized assets like housing in London, Paris or Barcelona, the gentrification of metropolitan areas in which increasingly only the better-off can afford to live, are all just some further examples of how the rising property prices in these areas represent a growth in the financial wealth of investment groups and private investors alike, while at the same time they reduce the wealth of those who need to pay higher mortgages or rents to live in them.

The inflationary pressures of growing financialization and the self-reinforcing growth in financial wealth manifests itself as well in the steady rise in prices of luxury goods and exclusive services once the rich and super-rich aim to state their prestige and status through sumptuous consumption. If not becoming sugar daddies or sugar mommies, thus acquiring companionship and/or sexual favours from the less-better off, sometimes at exorbitant costs. In all these cases, wealth disparity both in exchange-value and in use-value terms increases by the growing financialization of the economy. From that perspective, the growth of financial markets, particularly after the 1970s and accelerating with the series of deregulations of financial markets in the 1980s, the huge increase in the stock market valuation of the new technology giants of the world, the proliferation of hedge-funds and online trading, etc., were all-powerful ways whereby wealth inequalities have been growing not just because the rate of

return on capital has been higher than the rate of return on income and labour as shown by Piketty, but particularly because the rate of return in the financial and financialized markets has been even higher than the return in the so-called real economy, the production and distribution of goods and services. With the development of financial engineering from the 1970s onwards and all the later developments in the dynamics of the financial markets, it has increasingly been more profitable to produce new financial assets or to financialize given goods by speculatively acquiring them for their potentially growing exchange-value instead as for their use-value. Bitcoins and other cryptocurrencies may serve as an example: they are nowadays mostly acquired not as alternative currencies for commodity exchanges, but as speculative financial assets.

And here governments and public agencies more than promoting better income redistribution have willingly or unwittingly been active promoters of the growing financial profits and wealth inequality worldwide. As Michael Snyder noted,

> "for years, financial markets have been behaving in ways that seem to defy any rational explanation, but once you understand the role that central banks have been playing everything begins to make sense. In the aftermath of the great financial crisis of 2008, global central banks began to buy stocks, bonds and other financial assets in very large quantities and they haven't stopped since. In fact (…) global central banks are on pace to buy 3.6 **trillion** dollars' worth of stocks and bonds this year alone. At this point, the Swiss National Bank owns more publicly-traded shares of Facebook than Mark Zuckerberg does, and the Bank of Japan is now a top-five owner in 81 large Japanese firms. These global central banks are shamelessly pumping up global stock markets (…).
>
> The Swiss National Bank is one of the biggest offenders. During just the first three months of this year, it bought 17 billion dollars' worth of U.S. stocks, and that brought the overall total that the Swiss National Bank is currently holding to more than $80 billion. Have you ever wondered why shares of Apple just seem to keep going up and up and up? Well, the Swiss National Bank bought almost 4 million shares of Apple during the months of January, February and March."[9]

Thereby, once Governments and Central Banks themselves invest in financial assets, politics and chrematistics become even more intertwined. Certainly, governments such as the Norwegian and the Swiss are expected to profitably invest their surplus reserves, hopefully getting profits from their speculative acquisitions, while their losses would mean a squandering of public money. But by doing so they increase the financial bubbles by adding more demand to the existing speculative financial assets, thus increasing the wealth of the rich and super-rich and all those investors who happen to speculate in these markets as well. With the quantitative easing policies, this has been brought to a higher level, directly injecting more money into the financial markets, boosting the financial bubbles without adding any real wealth to the existing one. Money flowing increasingly rapidly towards where the opportunities for financial gain are sensed. They do, in their wake, help to rise companies, whole industries

[9] Snyder, Michael (June 7, 2017). *Central Banks Now Own Stocks And Bonds Worth Trillions – And They Could Crash The Markets By Selling Them*. Quoting Brian, Bob (April 21, 2017). *BAML: The "$1 trillion flow that conquers all"* explains everything happening in markets.

and countries as long as the rising purchasing power of investors creates new economic opportunities in some sectors. But, they do as well leave them in distress and possibly broken once they move out.

**Said otherwise or the role of money, politics, technology and inflation**

We can easily understand these dynamics if we look back at the old quantity theory of money (QTM) which states that the general price level of goods and services is directly proportional to the amount of money in circulation, or money supply. Already proposed by Copernicus and known since the renaissance, it tries to understand the fluctuation of market prices as a function of the existing circulating money and, at its root, it only states an accounting equivalence: goods and services can only be bought and sold in the markets to the extent of the available money to do so. Thus, it's ramifications and limits can be best understood if we simply look at an accounting equivalence between $MV \equiv PQ$ stating that the amount of money (M) multiplied by the velocity it circulates in the economy (V) is equal to the number of goods and services acquired (Q) multiplied by their prices (P). As long as there is no direct barter or credit sale, it is just a logical and needed accounting equivalence: the amount of realized market transactions given at one side of the equation being equivalent to the amount of existing money multiplied by the time it has been used during a given period at the other. Just to give a simple example, if there are five US$20 bills (M=100) and, in a given period each one is used twice in a transaction (V=2), 20 goods or services (Q=20) worth each one US$10 (P=10) could have been transacted during that period. 100*2=10*20. Or 40 at the price of US$ 5 each. Or any other combination whereby the amount of used money equals the monetary value of what has been sold. At the aggregate level, there has to be a direct relationship between the existing circulating money, the velocity it circulates (and thus, the times the same money can perform a purchase) and the number of goods and services that have been bought and sold at given prices. Any change at one side of the equation has to be matched by an equal change at the other side of it: $\sum M_{1\text{-}n} * V_{1\text{-}n} = \sum P_{1\text{-}n} * Q_{1\text{-}n}$

Historically, all these variables have been steadily growing (although with occasional decreases at certain times). But they did so at different paces and rhythms. The output of produced and traded goods and services (Q) has been growing at least since the industrial revolution. But it is after the Second World War that their growth has accelerated and even more so with the deepening of the economic globalization process after the 1980s, later the fall of the Berlin Wall and the Soviet regime, China's turn to greater market-economy and the economic growth of the 1990s and early 21$^{st}$ Century.

Nonetheless, it is at the monetary side of the equation that the growth has been more accelerated. In the modern era in the West, the gold and silver of the Americas brought huge inflationary pressure in the early colonial times when we had commodity money and the increase in gold and silver greatly boosted M. In the 19$^{th}$ century, the use of deposit-certificates as money, the growth of commercial banking and the creation of the first central banks issuing paper-money allowed to further increase the money supply once daring and cash-hungry regimes, as well as private banks and companies, eventually would issue notes and bank certificates beyond the existing reserves, although a gold-standard was still formally being observed. Notwithstanding, globally the maintenance of the gold-standard and commodity money meant an effective brake on the expansion of the monetary base, linked as it was to the existing gold reserves. Afterwards, the First and the Second World War efforts, the crisis of the 1930s and the reconstruction efforts of different governments, meant that

cash-needing governments issued money beyond their existing gold reserves and by the end of World War II, the USA was the only country in the world to still hold to the gold standard, possessing around 75% of the monetary gold reserves in the world.

After Bretton Woods and the USA's successful attempt to convert the US$ Dollar into the global world currency, the USA's monetary policies became central in determining the global money supply. From this perspective, the huge amount of American military and commercial aid, the Marshall plan, the spread of American transnational companies around the world, the increasing trade deficits of the USA, etc., all of them being financed and supported by the US$ Dollar, were all means whereby the global monetary base has been expanding. It meant a huge outflow of US$ Dollars to the rest of the world. Under the Bretton Woods agreement, central banks could exchange dollar holdings into gold at the official exchange rate of $35 per ounce. It meant a potential break to the expansion of global US$ Dollars, M. Notwithstanding, the increasing outflow of US-Dollars eventually led to mistrust and imbalances of the system. That is what happened when, particularly France under President Charles de Gaulle reduced its dollar reserves, exchanging them for gold at the official exchange rate, casting doubts on the willingness of the US to let its gold reserve dwindle while holding to the gold standard. Added to the fiscal strain of federal expenditures for the Vietnam War and persistent balance of payments deficits by the US, it all led U.S. President Richard Nixon to end international convertibility of the U.S. dollar to gold on August 15, 1971. Although initially presented as a temporary movement, it ended-up marking the effective end to the gold-standard and, from then on, it meant that all currencies in the world, including the US$ Dollar which had become the world currency, had become fiat money, pure exchange-value dissociated from any real wealth. A dollar is worth a dollar, nothing else. It's only use-value being it being accepted and trusted as an exchange-value. It allowed, thus, to effectively detach the growth in money supply (M) from any real-economy event (Q).

From then on, the global money supply could grow at will. And so it did. The oil shock of the 1970s and the steep rise in prices were accompanied by a growth in the monetary supply, as were the growth in output of these decades. America importing increasing amounts of oil at rising prices in exchange of what became known as the petrodollars which started to flood both commodities and financial markets in the 1970s. At the same time, the development of information technologies increasing the velocity of circulation of money (V) and, from the middle of the 1970s the development of financial engineering and the growth of finances, meant that this huge increase in the monetary base was increasingly being channelled not just to the acquisition of use-values in the real economy, but to be speculatively invested in the growing financial markets. As we saw, as long as the increase in the available money due to both the increase of M and V was not matched by an increase in the production of use-values (Q), it had to be matched by an increase in prices, that is inflation. And that is precisely what happened then.

But here, we have to distinguish two kinds of inflationary pressures, with hugely different effects on income distribution. If there is more available money to purchase goods and services, this will have to be matched by an equal increase in the market transactions of goods and services. Either because their supply increases, either because they are sold at higher prices. If we are talking about consumer goods and services, that is, use-values acquired by consumers to try to satisfy their perceived needs, the rise in prices means a decrease in wealth and a decrease of the purchasing power of consumers once they acquire less than before for the same money. The same happens if traders have to pay more for the goods or services they trade or industrialists have to spend more money to get the same

production factors as before to produce. Inflationary pressure effectively meaning a decrease in wealth for those who purchase at higher prices engaged in the so-called real side of the economy.

The opposite happens when we speak of financial speculative money: it is precisely a rise in prices of financial assets which is sought for. If someone buys a London flat, a collectable Oldsmobile, stamps, a master's painting or stocks not for their use-values, but as means-to-an-end, because of their hope for higher exchange-value down the line, it is precisely this inflationary pressure, the rise in its monetary price which is hoped for. It means not a decrease, but an increase in wealth to the owner of these financial or financialized assets. For money and all kind of financial assets, whose use-value is given by its value as a mean for exchange, the higher its price, the higher the use-value derived from it. And this is precisely what can be observed even taking a preliminary, superficial look at what is happening in our contemporary world, although more empirical and quantitative assessments would have to be done to assess the extent and depth of this phenomenon. Of course, a more precise quantitative assessment of this process poses huge and partially unsurmountable methodological and practical difficulties to be undertaken (Krippner, 2005). Not least because many of the goods and services bought to be used are indistinguishable from those bought as a financial asset, for their exchange-value instead. How to differentiate in the national statistics between real estate bought by families who wish to live there from the ones bought to invest someone's savings by hedge-funds? Or properties bought looking both to its present use-value and its potential higher exchange-value in the future? Rare stamps and master paintings bought to be admired and/or the pleasure of collecting, from those bought for purely speculative reasons? Even to distinguish the acquisition of bitcoins to pursue anonymous transactions from those made to speculate on their future value? Good approximations may be done and the global scale and trend may be imagined by observing the different financial dynamics in our present world. But a complete and detailed picture, although interesting to have, is hard if not impossible to obtain.

But, anyway, the trend seems to be clear and the important point to retain here is this dichotomy between the opposite effects the growing monetary base has on the wealth of different groups of people. Inflationary pressures increasing the wealth of financial speculators and decreasing the wealth of those consumers and producers engaged in the real-world economy. And this is an important if not growingly central aspect of the growing income and wealth disparities in our contemporary world. Not least because the expansion of the monetary basis (M) and the speed money is circulating (V) is still generating inflationary pressures both in the financial and the consumer markets.

Expanding financial markets, both through increasingly monetizing different assets which are bought for speculation and through the growth of the existing ones, means that those who manage to participate in this growth accumulate increasing amounts of money, which gives them the same claims on real wealth (that is, acquisition of different use-values) as those who earned their money from their labour, entrepreneurship or any other means. *Pecunia non olet* ("money does not stink") the emperor Vespasian is said to have said pointing to the fact that money does not reveal its origins. Nor do we perceive that nowadays increasingly the wealth of individuals and even companies and countries is the result not of labour and production, but from the inflationary growth in prices of financial or financialised assets. The greater the proportion of the financial side of the chrematistic economy concerning the real side, use-value producing one, the greater is the proportion of the claims on the real wealth of those who earned their money from their "money begetting more money", *vis-à-vis* those who

earned their money acting on the so-called real side of the economy. Inflationary pressures increasing wealth of financial speculators in the financial markets while decreasing the wealth of consumers in the real economy.

**Conclusion: the rich are getting richer while the poor stay poor…**

As said, money may be channelled towards two completely different kinds of markets and following two completely different aims: as consumer or productive investment money, it may serve to acquire use-values to be consumed. Be it for final consumption or be it productively to produce or commercialize other use-values, generating more wealth on its wake. At the other hand, it may simply be used speculatively, acquiring financial assets for their exchange-value and potential future selling at an even higher exchange-value, without directly creating any new real wealth. The first is what consumers, entrepreneurs, labourers and people, in general, do in the "real economy". The latter is what people who already possess more money than they need or require for their daily living use to do with their savings, speculating with exchange-values to earn even more money. Some professionals even borrowing money to speculate with it hoping to earn higher rates than the interests paid on the borrowed money. Thus, it may be no surprise that increasingly we may find internet self-termed financial gurus trying to teach and convince others to earn their living and even fortunes not from labouring, but comfortably from their homes by speculating in financial markets.

From what has been observed, we can see how income disparity has become a self-reinforcing process. The deeper the financialization of the economy becomes, the more people earn their money speculatively from the inflationary growth of the exchange-value of financial assets, from money begetting more money, while other's have to pay interests, dividends and mortgages on their credit money, as well as higher prices for the goods and services they acquire once inflationary pressures manifest themselves in the real economy. Those who already had more than they need or require for their daily living speculatively investing their savings in the financial markets, earning and accumulating more money which, once reinvested in the financial markets, drives the value of the financial assets even higher.

This is reinforced by many different factors. All of them channelling more speculative money towards the financial markets. Highly indebted governments resorting to money printing or simply formally independent central banks aiming to keep interest rates low or pursuing quantitative easing policies. An increasing share of rich and super-rich who have huge amounts of reserves to be speculatively invested, added to sovereign funds and private companies engaging in the profitable world of financial speculation as well. Then, there is an ongoing change in the way modern big corporations are managed. Increasingly, the very objective of modern big corporation's management is not to better produce use-values, but to increase the stock-market value of the company. Top-executives being paid or rewarded with shares of the company they manage (often being obliged to keep these shares for a certain time by contract), increasingly see their monetary interests aligned with those other stockholders of the company. Thus, with an incentive to increase the monetary share value of the company more than pursuing its goal of supplying goods and services which, themselves, become just a mean to an end. The financial logic overcoming productive logic. This is even more accentuated with the new unicorns and internet start-ups who try by all means to attract speculative investors, increasing their market-shares at all costs and particularly trying to create a hype around them, although often at huge operational losses. Thus, a "successful

management" nowadays means to get the highest share-value for shares you possess rather than performing in the real economy.

Like elsewhere, management is as well subjected to what Guy Debord termed the *society of the spectacle* (Debord, 1995[1967/], p. 16, thesis number 17): not just has *being* been replaced by *having*, but *having* has been replaced by *appearing*. As was said, the value of money is entirely a matter of trust: money is worth the trust the receiver may have of being able to use it for an exchange further down the line. In the case of speculatively bought financial assets, the trust it may be exchanged for a higher exchange-value later, which is only possible as long as people have trust on its value as a means for exchange or at least believe others to have. Thus, it is managing to appear to be successful and thus appear to be the next speculative hype which is asked to attract the growing speculative financial capital looking for opportunities to grow further.

There are certainly other reasons why income disparity is increasing in our modern capitalist world. Nor is social inequality a modern invent. Elites in class societies have always developed institutionalized ways as well as social practices aiming to ensure and possible expand their privileges. From ancient cast systems to medieval feudal structures and practices; from the privileges and wealth of soviet Nomenclature to today's oligarchs having a grip on the state; from public servants and politicians around the world abusing their office for personal gain to Wall Street brokers' insider trading practice. As Leopold Kohr (1957) argued, once there are scale imbalances and some may think that they may abuse their power without suffering the consequences of doing so, abuse and social violence eventually follows. And here too we have a self-reinforcing process: the higher the imbalance, the higher the potential for abuse to happen. Until the growth goes beyond a sustainable threshold and one pole eventually explodes or collapses. Much has been revealed about the abuses in the financial markets after the 1980s and later once we had the big crack-down in 2008. From Madoff to the opaque financial engineering, junk-mortgages, insider trading, revolving-doors between the public sector and trading companies like Goldman Sachs, the huge rescue packages paid for with public money to rescue those famously labelled as "to big to fail"…

But the point is that, beyond these clear abuses, the very way our economic structures and our present monetary policies and practices are designed, creates structural imbalances which increase the polarization and wealth imbalances between those who already have more than they need and those who struggle to make ends meet. Without any personal abuse or wrongdoing, just following the rules of the game. Some living from their money begetting more money, while others have to count their cents or live on interest-bearing credit. Some inheriting huge financial wealth which is easily turned into more by simply investing it in the financial markets, while others have their futures mortgaged. But this has become so entrenched in our modern economy and the way or governments and monetary policies function, that we do not even seem to be aware that increasingly not just new wealth is being unequally distributed among the members of the societies, but the existing one is being transferred from those who have less to those who already have too much and who continuously increase their purchasing power by having their money begetting more and more money. At the same time, positive stock-markets' performance is portrayed and seen by all as a sign of a healthy economy, the stock-market valuation of companies being seen as their real value… Everywhere, confounding the real economy with its monetary side and not perceiving that when the stock markets inflate faster than the real economy is growing, wealth is being transferred to those who own these financial assets from those who don't.

Simple policies like huge taxes on financial profits or the monetary valuation of assets, thus discouraging its speculative acquisition, are not even talked about. But how would it be if anyone who makes a profit by simply selling at a higher price the same he bought previously at a lower one (be they real estate, collectable items, cryptocurrencies, stocks…) had to give up a great part if not full of his profits in taxes? Shareowners getting their profits from paid-out dividends resulting from the company's real economy operations and not from the simply speculative growth of the monetary value of its shares? It would certainly lead people to acquire goods and services for their primary use-value, for that what they were meant to be, instead of speculating and buying them for their potential exchange-value down the line. Renouncing to the profits made from money begetting more money means that people and companies would have to focus on the real economy instead of the casino economy into which increasingly our economies are being transformed. Money again being used as a means for exchange and measure instead as for begetting more money, self-referentially growing and expanding in a cancer-like process which increasingly damages the health not just of our economy, but our social, political and we may say cultural organism. Altering our values and ways of being and relating.

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