



Who owes? Class struggle, inequality and the political economy of leverage in the twenty-first century

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Abstract

The prevalent consensus in critical social sciences is that finance articulates the world economy as a global hierarchy of creditor-debtor relations that reproduce and further aggravate existing income and wealth inequalities. Class struggle is correspondingly understood as a conflict between elite creditors, who are members of the global top 1% of wealth holders, and mass debtors, who are burdened by growing costs of servicing public and private debts. This article offers an alternative understanding of how debt, inequality and class relate to one another. At its basis is the recognition that over the past four decades, finance has empowered upper class borrowers, including the top 1%, as it has magnified their capacity to generate capital gains and capture greater wealth and income shares via levered-up investments and other forms of positioning in financial and property markets. The article thus provides a political economy of leverage as power, showing how contemporary global finance has not given shape to a distributional conflict between creditors and debtors as two distinct classes, but instead has set *debtors against debtors*, and namely the greater borrowers against the lesser ones.

Keywords

Class struggle, debt, finance, inequality, leverage, power

Introduction

According to a January 2020 *Global Debt Monitor* report by the Institute of International Finance, global debt would exceed \$257 trillion in the first quarter of 2020 and reach 322% of global GDP, “spurred by low interest rates and loose financial conditions” (IIF, 2020: 1). A later report in February 2022 estimated global debt at \$303 trillion at the end of 2021, reaching

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over 360% of global GDP. In 1980, it was only 120% of global GDP. While the world is drowning in debt and 'global leaders' of the Davos Group are preparing for a Great Reset, inequality has reached inexplicable heights.¹ According to the 2021 *Global Wealth Report* (Credit Suisse, 2021), the bottom 55% of the world population owns about 1.3% of global wealth while the top 1.1% owns 45.8% of it.² None of this is new: debt and inequality have grown *pari passu* over the past four decades, and the pandemic has only made things worse. Scholars have explained this as a historical process whereby the enriched strata of society have come to lend their excess income to the impoverished ones. Correspondingly, the creditor-debtor dichotomy has become a prevalent paradigm for understanding power relations and class struggle in the twenty-first century. A broad consensus in critical social sciences is that finance articulates the world economy as a global hierarchy of creditor-debtor relations that cut across states and societies. Class struggle is understood as a conflict between elite creditors and mass debtors, while finance is thought to stand 'in between', seemingly as a neutral intermediary and provider of loanable funds, though in fact acting as an apparatus for extracting value that only answers to the requirements of the creditor class.

Two complementary literatures can be identified in this respect, which are presented in section one of the article. The first focuses on the institutional and structural underpinnings of contemporary financial power as the power of elite creditors. These are understood to be the owners and allocators of capital, the rentiers, the shareholders and financial market investors, or else the ultra-rich household savers, members of the global top 1% of wealth holders and dominant participants in securities markets. The second literature focuses instead on what one might call the structural powerlessness of mass debtors: from the average taxpayer to those households who, in addition to shouldering public debts, are also burdened by soaring private and family debts. Despite pursuing different methodologies and research agendas, these two literatures converge on a basic point: according to both, over recent decades the richer groups have come to lend to, or anyway invest in the liabilities of, impoverished middle and working classes.

While the ethos of this article remains critical of contemporary finance, it nevertheless rejects the classical creditor-debtor dichotomy and offers an alternative understanding of how debt, inequality and class relate to one another. At its basis is the recognition that, first, the rich and ultra-rich borrow far more than anybody else, though their debt exposure is prevalently invisible, hidden in the balance sheets of the funds, banks and corporations of which they are dominant shareholders and beneficiaries; and second, that borrowing empowers the wealthy as it magnifies their capacity to generate capital gains and capture greater income shares via levered-up investments and other forms of 'positioning' in financial and property markets. In short, when looked at through the lenses of leverage, debt is empowering (Sgambati, 2019). In outlining a political economy of leverage as power, the article takes a cue from recent interventions on the asset economy and critical macro-finance (cf. Adkins, Cooper, and Konings, 2020; Dutta, Kremers, Pape, and Petry, 2020), and is part of an emerging literature that focuses on the agency of those specific financial market participants that leverage to generate differential gains and acquire greater power – be these broker-dealer banks, money managers, corporate managers of non-financial firms, or hedge funds (Sgambati, 2016; 2019; Knafo and Dutta, 2019; Knafo, 2021; Baines and Hager, 2021; Samman and Sgambati, 2022).

Yet the article goes one step further in this direction. In addition to discussing how leverage provides the master key to unlocking power in the celestial sphere of Wall Street and corporate finance, it also shows that the same applies to the sublunary realm of Main Street and household finance. Historical data on US household leverage, discussed in section two,

confirms the view that those who receive more income are also those who have historically borrowed the most, both in absolute terms and in relation to their income levels. The addiction to leverage extends to those at the very top of the income and wealth pyramid. As will be argued in section three, ultra-rich households in the top 1% borrow more than anyone else, though the true extent of their debt exposure cannot be captured by statistics on household debt. In the article, these ultra-rich are referred to as ‘absentee debtors’, echoing Veblen’s notion of absentee ownership, in order to stress how the elites borrow not only *from* banks but also *through* banks, money managers, and corporations of which they are majority shareholders, distinguished beneficiaries, and top managers, trading on their own accounts as well as on behalf of their high-end peers. As the late Peter Gowan (2009) pointed out in this respect, the dramatic growth of household debt from 1980 up to the 2007-08 crisis pales in comparison to the massive expansion of financial sector debt, mostly incurred to feed the portfolios of the rich.

The fact that rich and ultra-rich households are the greater borrowers casts a long shadow on current characterisations of global finance as pro-creditor finance – indeed a ‘creditors’ paradise’ (Blyth and Matthijs, 2017). As will be pointed out in section four, the extraordinary bailouts and pro-debtor monetary policies that have characterised the past two decades have exposed the true political nature of global finance as a cartel of too-big-to-pay banks and satellite financial institutions that are representatives not of a fabled creditor class, but of hugely indebted financial investors and speculators. Altogether, this begs us to reconsider how finance articulates class struggle in the twenty-first century. In particular, the main objective of the article is to demonstrate that contemporary global finance has not given shape to a conflict between elite creditors and mass debtors as two distinct classes, but instead has set *debtors against debtors*, namely the greater borrowers against the lesser ones. The implications of this argument, discussed in the conclusion, are simple, yet they invite a fundamental reassessment of the contemporary politics of finance. In the twenty-first century, global elites are not owed money; on the contrary, they are the largest debtors on earth. Class struggle should not therefore be simply about redistribution, but restitution too.

Global finance: The power of creditor elites?

Critical assessments of contemporary global finance echo early Marxist and institutionalist analyses of late-nineteenth and early-twentieth century capitalism. The type of capitalist finance that emerged at the turn of the century was the child of a union between investment bankers and corporate owners of industrial cartels – indeed, the culmination of a process by which ‘scattered capitalists’ were transformed into a historical bloc of dominant owners and managers of idle money, now repurposed as ‘finance capital’. Far from incarnating the entrepreneurial spirit of traditional moneylenders and venture capitalists, capitalist financiers of the *belle époque* were a leisure class of functionless rentiers, speculators, shareholders of big businesses or money trusts or both – that is, ‘absentee owners’ who had disinvested from industry and instead put their ‘surplus capital’ to work by making shorter-term portfolio investments, by buying and selling equities and bonds across multiple financial markets with the sole purpose of making arbitrage gains and extracting rents from industries and states. To that objective, they relied on a complex financial infrastructure that enveloped nation-states with their banking institutions and markets. In many ways, contemporary finance is thought to resemble the unfettered finance of the Robber Barons, a type of predatorial finance that serves the interests of invisible creditors, rentiers, and shareholders – a community of money, or moneyed class, that is owed money from society, but which paradoxically does not lend to

the ‘real economy’. In fact, contemporary finance does not seem to finance anything at all – that is, *except for itself*.³ Political economists have reserved for this some of their most critical and merciless assessments, arguing that finance is exploitative and parasitical in nature; profiting without producing; concentrating credit into the hands of quasi-monopolistic banking cartels; creating a polarised society of ‘takers’ versus ‘makers’, and so on (Hudson, 2012; Lapavistas, 2013; Foroohar, 2016; Christophers, 2018). The takers (a working-rich stratum of financial market investors, bankers, broker-dealers, asset managers, hedge fund consultants, corporate lawyers and shareholder activists) have been portrayed as a transnationally integrated *body politic* of ‘market people’ and a second constituency of the state (Streeck, 2014), or anyway as representatives of contemporary ‘patrimonial’ or ‘rentier’ capitalism (Piketty, 2014; Christophers, 2020) – all in all, a ‘creditocracy’ (Ross, 2014).

Highly-leveraged societies are correspondingly understood as economies in which creditors win and debtors lose – a ‘creditors’ paradise’ (Blyth and Matthis, 2017) built on fragile low-inflation and austerity regimes that have taken hold across the globe (to varying degrees) since the neoliberal turn in the 1980s. Because of financial globalisation, creditors can routinely exert their power not only instrumentally, through active lobbying, revolving doors, and regulatory or cultural capture of governing bodies, but especially from behind the curtain of ‘the markets’, as they can voice their grievances by simply shifting their portfolio preferences, for example, by selling off or boycotting new auctions of public debts (Streeck, 2014; Roos, 2019). Their credit, like a Damocles’ sword, is an ever-present market force, indeed a “structural power” that “may be operative even when its bearer cannot be seen to exert direct influence or control over the political process” (Roos, 2019: 58). Most of the time, to keep their indebted subjects in check, creditors only ought to threaten to withhold credit or “stage an outright ‘capital strike’” (Roos, 2019: 55).

Creditor elites versus indebted states and societies

Many scholars see the structural power of elite creditors at work in the predicaments of contemporary public finances. On the one hand, creditors are concerned that public debt increases may affect governments’ long-term ability to meet their liabilities and therefore jeopardise their creditworthiness, with the risk of causing a generalised loss of confidence among the international community of bondholders. Hence, from the early days of neoliberalism, they have pushed for anti-inflationary policies of sound money by means of balanced fiscal budgeting. On the other hand, creditors are also aware that governments may be politically compelled to tax their idle money and wealth to balance their budgets, which they of course abhor. And so, over time they have come to accept a favourable fiscal trade-off whereby, instead of paying more taxes, they lend greater sums to governments at lower interest rates (Streeck, 2014), de facto nurturing states as steady suppliers of debts as safe assets.

For their part, governments have turned to austerity to make the consolidation of public debt growth a viable and desirable course for the creditor class and its bond vigilantes. This has been coupled with politics of cheap and easy credit for households. For governments committed to austerity, increased household access to private credit has offered a path of least resistance (Rajan, 2010), a *quid pro quo* that has further deflected calls for progressive income taxation in exchange for the promise of a privatised debt safety net and a new asset-based welfare forged in the heat of equity and housing markets (Montgomerie and Büdenbender, 2015; Cooper, 2017). Unsurprisingly, while it has bought time for governments incapable of or unwilling to address the structural problem of inequality, easy credit has not

alleviated the socio-economic tensions caused by austerity. On the contrary, concealing itself behind the rhetoric of ‘financial inclusion’ and the ‘democratisation of credit’, lending to the poor has proven to be a highly profitable means by which to “dispossess and (re)impose silent compulsions and structural violence” (Soeberberg, 2014: 42) on the lowest strata of society.

Today, many see the creditor-debtor relation as the locus of contemporary (bio)politics *tout court*. For not only does credit serve as a capillary apparatus of capitalist capture, predation, and extraction targeting the whole of society (or, better, ‘the 99%’); it also “functions as a mechanism for the production and ‘government’ of collective and individual subjectivities” (Lazzarato, 2012: 29). Impoverished and precarious workers, students, renters and, more generally, taxpayers burdened with the costs of servicing ever-growing public debts: these are all specimens of the ‘indebted man’, as Lazzarato (2012) has it – structurally powerless social beings akin to debt slaves, apt to pursue the neoliberal virtues of personal entrepreneurship and creditworthiness, calculating costs and assessing the risks of borrowing money, “making themselves attractive to investors” (Feher, 2018: 17), haunted and overwhelmed by the existential burden of unpayable debts (both private and public) that they feel still ought to be paid.

When the rich lend to the poor...

Despite innumerable calls for reform since (and before) the 2007-08 global financial crash, there seems to be no end in sight for the current state of finance. The power of creditors appears unsurmountable, indeed structural. For most scholars, the root cause of contemporary financial dominance remains deepening inequality. The underlying assumption is that finance can only thrive if some mechanisms for producing at once an excess of idle money (or ‘surplus capital’ in Marxist jargon) *and* a growing demand for credit are both already in place. Traditional Marxist analyses point to excess capacity and a generalised fall of profitability in the manufacturing sectors of the Global North as secular drivers of real wage decline, long-term economic stagnation, and the use of finance as the last refuge for surplus capital recycling (for a review, Lapavistas, 2013). Other theories of income inequality point to changes in technology and globalisation, human capital, governmental fiscal policy, and corporate governance as secular drivers of income inequality (for a review, Hager, 2020). Notably, all these theories see the rise of finance not as a *cause*, but as the *consequence* of a historical process by which enriched households have been compelled to lend to impoverished ones.

This logic is formalised in a well-established economic model of the rise of US household debt by Kumhof and Ranciere (2010). According to this model, households in the top 5% of the income distribution, also referred as ‘investors’, ‘capital owners’ or simply ‘the rich’, have enjoyed a long-term increase in their income share – a phenomenon that has been recently referred to the ‘saving glut of the rich’ (Mian, Straub, and Sufi, 2020). The rich have used “part of their increased income to purchase additional assets backed by loans to workers” (Kumhof and Ranciere, 2010:1) or else the bottom 95%. In time, the oversupply of savings has pushed interest rates down and made private credit more accessible to workers. As a result, the latter have experienced a dramatic increase in their debt-to-income ratios, and this has been a major source of financial fragility and crisis (Kumhof, Ranciere, and Winant, 2015: 1243). Admittedly, the logic of this argument – which I am tempted to sum up as the ‘law of the diminishing marginal utility of usury’ – has broad appeal among both mainstream economists and critical social theorists, as it is in principle not at odds with Marxist analyses of financial expansion as an epiphenomenon of the ‘over-accumulation of capital’ (Harvey, 2004). Both

views deliver an image of contemporary finance as a house of cards, unable to address the underlying contradictions of capitalism and only offering a temporal fix in the form of cheap credit. Both views also imply a secular decline in creditors' ability to make money. In the mainstream economic account, the saving glut (which foreruns financial expansion) causes diminishing returns on the debt securities held by creditors and promotes risk-taking (therefore leading to crisis); in the Marxist account, the overaccumulation of capital (which foreruns financial expansion) is associated with a falling rate of profit (therefore leading to crisis).

The remainder of this article will challenge the understanding of inequality, class and finance outlined in this section. Far from acting as creditors who make money (extract value) by lending their savings (capital) at interest to the poor, today's rich and ultra-rich are debtors who actively leverage their investments both directly, by borrowing with a view to investing in property and equity markets, and indirectly, through the activities of funds, banks and corporations of which they are dominant shareholders and beneficiaries. Their accumulation of wealth (or saving glut) is not the *cause* of a pro-creditor finance, but the *consequence* of a pro-debtor finance that thrives on leverage and which has fractured society in ways that cannot be understood through the traditional lens of the creditor-debtor dichotomy. In today's highly levered-up societies, everyone is a debtor, yet not all debtors are the same (see also Samman and Sgambati, 2022). Access to what one might call 'the means of leverage' bifurcates the economy and creates distributional conflicts among debtors: it punishes those who are compelled to borrow to meet their liabilities and pay their bills and taxes when due, while rewarding those who can afford the opportunity of leveraging their positions in financial and property markets with a view to making capital gains. The political economy of leverage is in this way one that sets *debtors against debtors*, and namely the greater borrowers against the lesser ones.

Who owes money? Some unsettling facts about household leverage

The overarching consensus shared by most critical social theorists and mainstream economists can be restated as follows: over the past decades, impoverished households have come to borrow the extra income that enriched households – the top 1 to 5% of the income distribution – have been able to save due to a variety of reasons. As compelling as this may sound, the narrative must be rejected *in toto*. While there can be no denying that lower-income households have expanded their share of total consumption debt and experienced a dramatic increase in their family debt burden, it would be a great mistake to single them out as the main drivers of household leverage. As a matter of fact, it only takes a quick look at the latest available data provided by the US Survey of Consumer Finances, the UK Office of National Statistics, and the European Central Bank's Household Finance and Consumer Survey to make the unsettling discovery that the probability of incurring larger sums of debt is positively correlated with income levels. For instance, the 2019 census on US household debt shows that 48.2 and 30.5% of US households in the lowest and second quintiles respectively have no debt at all; another 44% (lowest quintile) and 55.8% (second quintile) have debt *below* \$100,000 (though in fact most are somewhere between \$1-\$24,999).⁴ By contrast, 43.9 and 61.2% of households in the fourth and fifth quintiles respectively have debt *above* \$100,000 and only about 15.1% have no debt at all. Unsurprisingly, while the median value of total debt for the bottom two quintiles is \$11,000 (lowest) and \$22,000 (second) respectively, for the top two quintiles it is \$105,600 (fourth) and \$210,000 (highest). Data on household debt in the EU and the UK indicate a similar pattern (Harari, 2018; ECB, 2020).

In a historical analysis of the rise of US household debt from 1949 to 2013, Kuhn, Schularick and Steins (2017) found that, contrary to common sense, household debt remains an upper-to-middle class phenomenon for the most part. The share of total debt owed by richer households has increased since the 1950s. More specifically, “shares in housing debt slightly decreased for income groups up to the 4th quintile. In contrast, the share of the top 20% income households increased from 41% in 1950 to 55% in 2013. *This increase is mainly driven by the top 5%*” (Kuhn, Schularick, and Steins, 2017: 8, emphasis added). Another study of US household debt and income distribution over the 1983-2013 period by Mason (2018) confirms the above findings. As Mason (2018: 24) explains, “most stories that link rising debt to increased income inequality imply that the largest rises in debt should be found down the income distribution” and this is true “if the question is framed in terms of the top 5% and the bottom 95%”. However, if we look at how debt is broadly distributed, we get a radically different picture: “more than three-quarters of household debt is owed by the top 40% of the income distribution; less than 10% is owed by the bottom 40%” (Mason, 2018: 30). Contrary to conventional narratives, data shows that “the absolute level of debt rises monotonically with income” to then “fall somewhat at the very top of the distribution” (Mason, 2018: 32), that is, around the top 1% (though this is only an illusion, as will be argued later).

From the perspective of mainstream economics, the fact that ‘those who have more money’ are also likely to be ‘those who borrow more money’ makes no sense. This is because mainstream economics conceptualises household debt as a device for smoothing consumption over one’s life cycle – an intertemporal trade-off whereby borrowing today entails a subtraction of income tomorrow. But in practice, the great majority of household debt is incurred not to smooth consumption but to finance the acquisition of assets, and in particular, housing. Far from causing a reduction of income over time, homeownership has generated capital gains, equity-extraction gains and/or other rent-related gains that on average have more than compensated for debt service costs and therefore boosted inequality over the past decades. Again, this should not be interpreted as a rebuttal of the all-too-evident truth that debt has functioned as a mechanism by which to disempower and prey on the poor. But to frame the problem of household leverage as a conflict between elite creditors and mass debtors is to mystify the fact that while the poorer households have mostly borrowed to pay for bills, education, healthcare, and more, sinking into the quicksand of consumption credit, the richer households have seen their wealth grow together with their ability to leverage their investments in property.

The subprime bubble as an upper-class phenomenon

The subprime mortgage boom of the 2000s offers further evidence of the fact that leverage was and remains predominantly an upper-class phenomenon. Pundits have described the subprime mortgage crisis as the story of how cheap credit facilitated the financial inclusion of subprime borrowers with high-risk profiles, previously excluded from the circuits of mortgage finance. As is well known, banks, mortgage brokers, and other primary lenders started to underwrite non-documented mortgages, piggyback mortgages, and even the notorious NINJA mortgages (‘no income, no job, no assets’), de facto competing with government-sponsored enterprises (GSEs) like Fannie Mae and Freddie Mac in a race to the bottom of credit standards. Middle- and lower-income households have naturally been singled out as the foremost recipients of subprime credit for the simple reason that they typically received lower credit scores relative to higher-income borrowers. However, a study of US foreclosures by Ferreira and Gyourko (2015: 38) shows that, on average, subprime borrowers were only

marginally less rich than prime borrowers: mean income values were respectively \$125,100 versus \$117,500. Quite astonishingly, both groups were part of the top 10% of the income distribution in the US. Also, both groups included a similar proportion of non-occupant homeowners, i.e., investors who bought property for rental income and/or capital gains. The percentage of non-occupant homeowners was 21% among prime borrowers and 19% among subprime borrowers (Ferreira and Gyourko, 2015: 39).

More importantly, the increase in the share of subprime lending over the decade prior to the crash squeezed out mortgages insured by the Federal Housing Administration (FHA) and Veterans Administration. Unlike both prime and subprime mortgages, these FHA-insured mortgages were typically issued to households in middle- and low-income groups (Ferreira and Gyourko, 2015: 3). Finally, as the foreclosure crisis progressed, it became clear that although in its first stage, between 2006 and 2008, more homes had been lost by subprime borrowers relative to prime borrowers, this was completely reversed in the 2009-2012 period. By the end of 2012, “twice as many prime borrowers lost their homes than did subprime borrowers” (Ferreira and Gyourko, 2015: 3). All of this strongly suggests that subprime borrowers were not in principle more financially disadvantaged or distressed than prime borrowers, let alone low-income borrowers. Like prime borrowers, they were in the top quintile of the income distribution, and a similar proportion of them comprised amateur speculators and wannabe ‘petit rentiers’ interested in capital gains (Goldstein, 2018).⁵ On these grounds, it is hard to sustain that the subprime bonanza entailed a democratisation of mortgage finance. At the peak of the housing boom, between 2003-2005, home purchases by non-occupant investors (which typically enjoyed higher income vis-à-vis occupant borrowers) “increased almost 50%, while home purchases to owner occupants just 6.4%” (Robinson, 2012: 117). More generally, if we take a longer-term look at the housing mortgage market, we discover that among occupant borrowers, home equity lines of credit and second mortgages have played a major role in enabling capital gains and wealth extraction since the 1970s (Bartscher et al., 2020: 3), at the cost of progressively pricing out of the appreciating housing market the poorer strata of American society.

This should not surprise us. Due to the procyclical effects of mortgage credit on housing market inflation (Mason, 2018), homeownership has become a more expensive and exclusive type of investment. Looking at the EU, here too we find that today’s poorer households hardly borrow for housing purposes. Only 7.2% and 12.3% respectively of the bottom and second quintiles of the EU income distribution have mortgage debt, whereas the shares of mortgagors rise to 42.6% and 51% in the two top deciles. In fact, more than two thirds of households in the bottom two quintiles have no debt whatsoever, while more than half of those households in the top two quintiles have debt (mostly housing-related). The highest debt-to-income ratios are to be found in the top quintile (ECB, 2020: 17-23).

If it’s the rich who borrow, then who is lending to them?

These unsettling facts beg us to reconsider our understanding of inequality in highly-leveraged societies. We have grown comfortable with explaining the late capitalist phenomenon of household debt as a product of a saving glut of the rich (who have loaned their excess income to the poor at declining interest rates). In reality, it is the asset-rich households at the top of the income distribution, not the poor (who continue to lack collateral assets and remain uncreditworthy for the most part), who have been actively borrowing larger sums, both in absolute terms and in relation to their income levels, contributing to the dramatic increase in

household debt. To call them ‘savers’ or ‘creditors’ is to mystify the crucial fact that leverage has been key to their wealth accumulation.

But if the rich borrow, then who is lending to them? In the US, this amounts to a \$17 trillion-dollar question (corresponding to outstanding US household liabilities in December 2021). According to proponents of the saving glut of the rich thesis, “the lion’s share of household debt is held as a financial asset by US households” (Mian, Straub, and Sufi, 2020: 36). This conclusion is reached after a detailed decomposition of the Financial Accounts of the United States – a process that the authors describe as “an attempt to remove the veil of financial intermediation” (Mian, Straub, and Sufi, 2020: 29). Once this veil is removed, we are left with one possible interpretation: the phenomenon of US household leverage is a form of communism of the rich, that is, wealthy savers lending at favourable rates to wealthy borrowers.

Alas, this interpretation is inaccurate and nothing short of a distortion. US households are not lending to themselves (nor are they funded by foreign investors, as proponents of the Asian saving glut thesis argued a decade ago). If we recompose the US flow of funds and ‘bring finance back in’, we get a far more nuanced understanding of the institutional foundations of household leverage. According to US flow of funds data (Financial Accounts of the United States, 2019), US households – including their hedge funds, private equity funds, and personal trusts – possess wealth to the total value of \$95 trillion; yet they only own \$721 billion worth of household debt in the form of agency- and GSE-backed securities. That is, US households only own 4.5% of outstanding household debt. The remaining share, with its associated credit risk, is predominantly held by GSEs and by US banks, followed by the Fed. In other words, far from owning their own debts or funding each other, the American upper classes are members of a community of money that gets full support from a hybrid, public-private infrastructure of financial agencies backed by the public and committed to making money for an affluent society of debtors, not creditors. To understand the political economy of leverage in the twenty-first century, we must turn our attention to this financial infrastructure and its ability to ‘make money’ out of debt.

Who makes money? A political economy of leverage as power

The problem with existing socio-economic interpretations of the twin phenomena of soaring debt and inequality is that they draw conclusions that are often inadvertently premised on the erroneous view that contemporary finance is a mere go-between or intermediary structure, gathering the excess income of enriched households to fund the debt-driven consumption of impoverished households. Financial relations are correspondingly understood as a zero-sum game between elite creditors and mass debtors, with banks and money-managers at the battlefield of a financial war that reproduces and further aggravates wealth and income disparities. As appealing as it may be, this characterisation of finance as the intermediation of loanable funds rests on a flawed, neoclassical view of capital as a fund of saving.⁶ Institutionalist approaches to finance have convincingly argued that capital is not the product of past savings, but a forward-looking process of capitalisation based on the discounting of future value. Historically, this process has been perfected by banks, dealers of debt *par excellence* and the beating heart of modern financial markets (Sgambati, 2016, 2019; Sissoko, 2017; Guttman, 2018). Any heterodox, post-Keynesian economist would agree that the intermediation view of banking is no more than a fairy tale: fresh new money is ‘endogenously’ created by banks whenever they make loans. This idea has widely circulated in social scientific circles for more than two decades. What is more significant, since the 2007-

08 financial crisis, even macro-financial economists from the International Monetary Fund, the Bank for International Settlements, and the Bank of England have rejected intermediation theory and questioned the validity of saving glut arguments (e.g. Borio, 2014).

Today it is widely accepted that money is not a scarce good in principle, hence the production of loans cannot be supply-constrained. In the real world, banks *make money* – in the twofold sense of creating money and making profits – as they leverage their positions in other people's debts and, in the process, expand their balance sheets. Stated otherwise, loans make deposits and savings are a consequence of banks' debt financing practices, not the other way around. What is less understood is that today's global banks (or big banks) also make money by wiring themselves into financial markets, as they leverage their position in the capital market and fund their portfolios of financial assets in the money market. As a result, loan-making and deposit-taking activities are no longer analytically separable from (proprietary) trading, shadow banking, and securitisation. As leverage in financial markets grows, so too does global banks' ability to make money out of dealing in debt (Sgambati, 2019).

Withdrawing capital as a class strategy is not an option

This calls for a profound reconsideration of what scholars take to be the institutional foundations of contemporary financial power. For example, the notion of structural power – the idea that dominant owners of capital can threaten to withhold their money, or even go on a capital strike – works within the framework of neoclassical economics, where capital is a fund of saving, but it is hardly tenable in light of recognition that the supply of bank credit is not financially constrained by the supply of savings. More to the point, the very ability of money holders to save their surpluses rests on the liquidity of a global financial infrastructure that would collapse if lines of credits were to come to a sudden halt. As the literature on safe assets has demonstrated, the mass production of public debts is indeed indispensable for the stability and profitability of the global financial ecology that the owners of capital and their money-managers inhabit. Without a steady supply of safe assets (and the bank liquidity required to finance their production and tradability), the store of value function of money is at risk (Kaltenbrunner and Lysandrou, 2017).

This is not to say that owners of capital cannot individually exert power by threatening to strategically shift their portfolio preferences; however, it does suggest that they cannot exit markets and withdraw their capital as a class-wide strategy without risking wreaking havoc upon themselves – their collective capital is locked in, often in passive index funds (see Fichtner and Heemskerk, 2020). In fact, their capital is at the basis of a leveraging infrastructure that is not recycling the idle money of the global rich into loans to the rest of the world, but is instead making it possible for the wealthy and ultra-wealthy to borrow unspeakable (and often invisible) amounts of money with a view toward making more of it. Leverage is routinely employed by elite funds and big banks in capital market trading, arbitrage, the carry trade, and short selling, all of which are high-risk speculative strategies that aim to beat the market and generate above-average returns. This market liquidity is endogenously created as global banks routinely expand their balance sheets through capital market trading to then fund their liabilities by issuing money market instruments, or 'cash equivalents', whose value rests on safe (and pseudo-safe) assets that banks ought to source in the first place in the capital market (Sgambati, 2019; Beck, Knafo and Sgambati, Forthcoming). In short, capital is locked into levered-up investments and a generalised capital strike could only unfold as a massive deleveraging and deflation of financial markets.

Financial sector leverage and absentee debtors

If you were rich, would you lend money to others at zero or negative interest rates? The question is rhetorical: elite financial firms do not lend their managed funds, but find it more reasonable and lucrative to borrow additional money on top of their shareholder capital to speculate in financial markets, and big banks facilitate this. Unsurprisingly, the volume of financial sector debt, including off-balance-sheet and derivatives exposures of global banks and money-managers, easily surpasses other forms of public and private sector debt at the global level. Consider hedge funds, those highly levered-up funds with the mandate to ‘seek alpha’ (high yield) on account of (ultra) ‘high net worth individuals’. Back in heyday of the subprime bubble, when investors were jumping *en masse* into the housing market, the very rich and ultra-rich households in the top 1% did not stand back and watch, let alone lend. A far greater financial bubble of Collateralised Debt Obligations (CDOs) was building on top of the housing bubble, fuelled by global banks and all sorts of money-managers, including especially hedge funds. CDOs were structured financial products created by the shadow banking complex, which packaged together mortgage-backed securities and other types of household debt. Starting from 2002, hedge funds and, in particular, those specialising in fixed-income and relative-value strategies, which tend to be also the largest and most levered-up funds (Barth, Hammond and Monin, 2020: 16), got deeply involved in the CDOs market. So much so that, according to one estimate, they came to hold “a little over 1% of the world’s total stock of securities” but “nearly 50% of the total stock of CDOs” by the end of 2006 (Lysandrou, 2011: 233). Hedge funds employed leverage to buy CDOs. Once bought, CDOs were ‘marked to market’, positively re-evaluated and re-collateralised in a process by which hedge funds could obtain more liquidity from banks, thus causing a self-reinforcing pattern of leverage-driven, asset-price inflation of CDOs (Sgambati, 2019: 302-3). After riding the CDOs bubble on borrowed money, most hedge funds beat the gun and started to deleverage in a collective selling effort before the house of cards began to collapse in mid-2007 (Ang, Gorovyy, van Inwegen, 2011: 121).

The total assets under management (AUM) of the hedge fund industry have grown from less than \$500 billion in 2000 to about \$4.5 trillion in the third quarter of 2021.⁷ According to conservative estimates that do not capture off-balance-sheet exposure (also known as ‘embedded’ or ‘synthetic’ leverage), hedge funds’ leverage ratios are on average 4 to 5 times the value of their AUM. This explains why the hedge fund industry is responsible for 30 to 60% of market turnover despite commanding small shareholder capital (especially when compared to pension and mutual funds). At the peak of the subprime bubble in 2007, hedge funds’ AUM stood at \$1.65 trillion, while their overall debt exposure ranged between \$4.8 and \$5.5 trillion (Blundell-Wignall, 2007; Ang et al., 2011: 120). In 2021, debt exposure might have reached \$18 to \$22.5 trillion (four to five times AUM). The growing exposure of hedge funds has been mirrored by the ongoing expansion of big banks as market-makers, or broker-dealers (Krutli, Monin and Watugala, 2019), eager to accommodate the demand for leverage by elite money-managers.

Notably, elite money-managers include not only hedge funds, but also real estate investment trusts (REITs), private equity funds, and other funds (and funds of funds) seeking above-average market returns by means of leverage. These money-managers and the banks that facilitate their leverage are responsible for generating financial sector debt that remains invisible to a great extent. This is because much of this debt is not generated through on-balance-sheet debt contracts, such as ‘reverse repo loans’ and ‘securities lending’, but is hidden in off-balance-sheet contracts such as ‘derivatives margining’ and ‘swaps’ (Gerasimova

and Jondeau, 2018; Barth et al, 2020). The latter similarly create mutual liabilities for the counterparts and practically function as market-based credit (Borio, McCauley, McGuire, 2017). However, they are executed over the counter and/or in dark pools and therefore remain off balance sheet, weaving an invisible net of hybrid derivatives-loan contracts with a notional value of \$640 trillion and a gross market value of \$12 trillion in 2019 (BIS, 2019a). This is a 'dark matter' of global finance that makes it altogether impossible to give a true estimate of how much financial debt is incurred to feed the portfolios of the ultra-rich, who should be rightfully referred to as a class of *absentee debtors*.

In light of what has been argued so far, the notion that global finance engenders social conflict acquires new significance. Traditionally, global finance is imagined as the Great Creditor, and it is thought to stand in opposition to the Indebted Man, archetype of the neoliberal subject burdened by soaring private and public debts. And yet, over the past few decades, finance has proven to be the great ally of the rich and ultra-rich, not because it has enabled the recycling of their idle money in the form of income-extracting loans to the lower classes, but because it has served as the lever by which new wealth has been appropriated and new gains have been made on borrowed money. Logically, all the extra income that the wealthy have been able to accumulate in recent decades – indeed the whole of money that exists today – was originally loaned into being by banks, and the rich themselves have been the foremost recipients, or anyway beneficiaries, of such credit. This demands that we rethink how class and conflict shape and unfold in highly-leveraged societies.

Class struggle in highly-leveraged societies

In the Marxist tradition, class struggle is broadly understood as a relationship of domination, exploitation, and exclusion (Wright, 2015). While this relationship can take many forms, it is here argued that in highly-leveraged societies, the primary element shaping class struggle is no longer (or anyway not exclusively) the employer-employee relation (as also pointed out by Adkins et al., 2020), and nor is it the creditor-debtor relation, as this article seeks to demonstrate. Instead, it is a peculiar conflict among debtors: *a struggle about who is going to leverage and who is going to pay for it*. This struggle over the means of leverage is both overt and covert, individualised and institutional. Overt struggle entails the direct exploitation of impoverished individuals and households compelled to borrow from banks to meet their liabilities and pay their bills, whilst effectively being denied access to highly-inflated property and equity markets for purposes of capital gains. In some cases, it assumes the clear contours of exploitative and predatorial finance. Covert struggle, on the other hand, takes place predominantly through the institutional channels of fiscal and monetary policy, and ultimately consists in governing the financial infrastructure with a view to enabling the leverage of the greater (richer) borrowers whilst shifting the cost of their indebtedness onto the lesser (poorer) borrowers.

Class struggle in plain sight

We had glimpses of what class struggle has come to signify in the twenty-first century when we saw the Occupy movement taking to Wall Street in the aftermath of the 2007-09 financial crisis, once it had become clear that average Americans had been put on a cross of debt to bail out the rich and their financiers. Protesters carried slogans saying: 'we are the 99%', 'we are not a loan', 'Chase, give us our money back', 'we bailed you out, time to pay us back with

interest'. These slogans, perhaps inadvertently, captured what was truly at stake in those 'exceptional times' (the Fed had just completed a second round of quantitative easing to accommodate the liquidity of financial markets and backstop big banks): far from having accumulated credits against the people, the top 1% *owed them*. Students, renters, workers and unemployed – crowds of laypeople representatives of the most disadvantaged groups in society stood for weeks outside the temples of finance, knowing that they were being sacrificed for 'sins' they had not committed or for which they were only marginally responsible. Their struggle was not about redistribution but *restitution*, i.e., returning money and money-creating financial institutions to the people.

The aftermath of the 2007-09 crisis has shown the true face of contemporary finance, indeed the 'new normal' of its subtle politics: its ability to make promises over promises that are never fulfilled but only ever carried over to the next day (Samman and Sgambati, 2022), a gospel for Wall Street and its levered-up players who stand to lose trillions if the train of capital market inflation were to be derailed or even slowed down. The normalisation of quantitative easing and zero-interest rate monetary policy means that it no longer takes a reckoning day (or more prosaically, a 'Minsky moment') for 'balance-sheet crucifixions' of the people to occur. The cost of funding the rich is routinely shifted onto those who are 'too small not to pay' and avoid taxation, or too poor to afford a mortgage, or simply too powerless to bargain with their employers, landlords, masters. Everyday renters, precarious workers, and various other debtors of the state are systematically overwhelmed by the burden of unpayable debts incurred by others that yet ought to be paid by them via regressive taxes they cannot avoid or evade, high rents, high tuition and interest fees, and various palliative administrations of austerity.

The struggle between the indebted rich and the burdened poor has many shades. At one extreme are low-income households that may have become addicted to revolving credit to 'keep up with the Joneses', or which may have never borrowed from a bank and have developed a risk-averse attitude to credit due to their extreme financial vulnerability and net worthlessness. *Nolens volens*, these households are chained to debts they never wished for and are forced to bear the cost of funding a 'finance culture' (Fligstein and Goldstein, 2015) that rewards high degrees of risk and leverage that they cannot afford. At the other extreme are rich and ultra-rich households that may or may not borrow directly but which anyway benefit from the massive borrowing carried out by the financial and non-financial firms of which they are the main beneficiaries and dominant shareholders. In the middle are households that, to varying degrees, are trying to climb up the social ladder and possibly 'keep up with the Gateses' in the top 1%. These junior members of the 'portfolio society' (Ascher, 2016) increasingly borrow to invest in housing and/or use their homes as ATMs to fund other expenditures, including very expensive tuition fees at elite universities and other status-seeking items of conspicuous consumption (Frank et al., 2014; Di Muzio, 2015).

Class struggle in thin air

In a world where money is created 'out of nothing', class struggle does not simply manifest itself as overt political conflict over (access to, exclusion from) the means of leverage; it especially takes place 'in thin air', in the interstices of finance. Most of the time, it is a silent offensive against common people oblivious to what's hitting them. The offensive might come directly from 'the markets' – that is, *out of nowhere* – although the threats of disinvestment and capital strike are normally sporadic, individualised, unlikely to develop into a protracted and collective endeavour for reasons discussed in the previous section. More often, it is

through fiscal policy and monetary governance that class struggle becomes institutionalised and entrenched in everyday life, such that the greater borrowers can shift the cost of their indebtedness onto the lesser ones. Both critical social theorists and financial economists have pointed to shifts in tax and financial regimes across advanced economies of the Global North favouring leverage and capital gains (Luca and Tieman, 2019; Adkins et al., 2020). Central banks have played a key role in this respect. Re-branding themselves as independent bastions of market neutrality and financial stability, they have positively contributed to financial globalisation (Braun, Krampf and Murau, 2020) and cushioned financial market inflation with their active market-making of last resort, de facto providing great elasticity to the global leveraging infrastructure whilst consistently failing to discipline overstretched financial speculators, as the great financial crisis of 2007-08 demonstrates. Since then, central banks have been endowed with even greater autonomy in monetary governance (Jakobs and King, 2016; van 'T Klooster, 2018) and have been using their exceptional, emergency powers to better 'govern through markets'. Yet, paradoxically, the more they govern through markets, the more they contribute to generating 'infrastructural power' for those private financial actors they allegedly seek to discipline (Braun, 2018).

The truth is that central banks have proven to be highly politicised financial agencies committed to pursuing anti-inflationary policies of sound money for Main Street whilst availing privatised forms of stock market Keynesianism for Wall Street (Brenner, 2009), using their exceptional policy tools to bolster a pro-debtor monetary regime – indeed a *debtors' paradise* – that systematically rewards the greater borrowers. Consider ZIRPs, or zero interest rates policies. These were politically accepted on the grounds that they would promote cheap credit for enterprises, economic recovery, job creation and so on. Alas, a recent study shows “a direct link between increases to income inequality, defined as the income disparity between the top 1% and bottom 99% income groups, and low interest rates” (Berisha, Meszaros, and Olson, 2018: 13). Perhaps unsurprisingly, low interest rates stimulate leverage-driven capital market inflation: a cornucopia for the top 1 and 0.1% income earners who derive a substantial portion of their income – between 20 and 40% – from capital gains (Berisha et al., 2018).

What is perhaps more interesting, the Fed too has more than doubled its profits over the past ten years, to the point that it has become more profitable than any of the most profitable US corporations listed on *Fortune* 500. As reported in a *Forbes* article, between 2009 and 2019, the Fed remitted to the US Treasury (after paying annual dividends to shareholders) an average of \$77 billion, reaching a record \$97.7 billion in 2015, “when the Fed balance sheet peaked at \$4.5 trillion and the IOER rate (interest on excess reserves) was near zero”.⁸ In 2020, the Fed remitted \$86.9 billion in profits to the US Treasury.⁹ In comparison, profits for the entire US banking industry amounted to \$147 billion in the same year.¹⁰ The fact that the Fed is effectively the most lucrative business in the world, despite not being primarily motivated by a profit motive, says something about the power of creating money out of debt.

Besides delivering about a trillion to the US Treasury since 2009 after paying dividends to member banks, the Fed has also created tremendous opportunities for Corporate America with its cheap credit.¹¹ Over the past ten years, low interest rates have incentivised the growth of debt-based stock buybacks and a general surge in corporate leverage (Lund et al., 2018). According to a recent study by Baines and Hager (2021), in addition to having more than doubled their net profit margins since the 1980s, the largest listed US corporations have also dramatically increased their leverage ratios. Meanwhile, smaller corporations have experienced sharp deleveraging alongside increasing debt servicing costs and registering severe losses. Large corporations have become so addicted to cheap credit that, back in 2016, some 12% of listed non-financial corporations in fourteen advanced economies were

‘zombie companies’ (Banerjee and Hoffman, 2018). Zombies and quasi-zombies have taken on syndicated leveraged loans and issued below-investment grade bonds (junk bonds) that have been pooled together with BBB bonds (the poorest quality of investment-grade bonds) and have been securitised by banks and their off-balance-sheet special investment vehicles – collateralised loan obligations (CLOs) – sliced and diced into tranches (from AAA to equity), and sold to global investors looking for products offering both high yield and liquidity. The same old securitisation story, except this time it is about corporate debt. According to a Financial Stability Report by the Bank of England (2019), the global stock of CLOs might have reached \$3.2 trillion in 2019; a mountain of financial wealth resting on a great deal of junk. Top that with the surge in fallen-angel bonds caused by the pandemic and it becomes clear why the Fed had to initiate yet another corporate bailout of biblical proportions in Spring 2020 (Brenner, 2020).

Repocalypse now and forever?

The Fed had a taste of what financial markets were cooking up already in December 2018, ‘the worst December since the Great Depression’ as financial journalists put it, and again a few months later, in September 2019, when interest rates in the repo market suddenly spiked. In the face of what was aptly termed the ‘repocalypse’, the Fed rediscovered the virtues of quantitative easing.¹² Back in 2015, the Fed had started to slowly shrink its balance sheet via quantitative tightening and interest rate targets had begun to move up accordingly, from 0.5% in December 2015 to 2.5% in December 2018. The markets could not take it. In October 2018, about \$2 trillion were lost after the Fed had raised interest rates by 25 basis points (on 27 September). When in December the Fed raised its target by another 25 basis points, the stock market plunged, causing \$3.4 trillion to be wiped out.¹³ Many blamed the US-China trade war for causing uncertainty and volatility in the stock market. However, as soon as the Fed promised to stop raising interest rates in January 2019, the markets bounced back. The recovery was short-lived. On 1 August 2019, the Fed was forced to lower interest rates for the first time since December 2008 amidst concerns for slow growth. It had to lower them again on 19 September, officially ending its feeble attempt to rein in the credit bonanza. The reason was a sudden money market crunch. On 16-17 September, the overnight repo rate spiked to almost 10% and this immediately evoked fear of another run on repos. This unexpected event was promptly met by a massive open market operation as the Fed began to pump liquidity into the money market to the tune of \$50 to \$75 billion a day. The effect of this unprecedented open market operation was to quickly undo the quantitative tightening started in 2015, which had caused the balance sheet of the Fed to shrink to \$3.7 trillion from a peak of about \$4.5 trillion. Over the course of five months and a \$400-billion money market stimulus, the balance sheet of the Fed was back to \$4.1 trillion. This was before the stimulus packages and bailout responses to the pandemic crisis inflated the Fed’s balance sheet to \$8.9 trillion (as of February 2022).

The repocalypse signalled the normalisation of the state of exception of contemporary central banking and its deep entanglement with financial markets. It is worth mentioning in this respect that, according to the Bank for International Settlements and the Bank of England (BIS, 2019b; Bank of England, 2020), hedge funds are likely to have played a leading role in precipitating the 2019 repo crisis. In the first quarters of 2019, “leveraged players (e.g. hedge funds) were increasing their demand for Treasury repos to fund arbitrage trades between cash bonds and derivatives” and “the resulting drain and swings in reserves are likely to have reduced the cash buffers of the big four banks and their willingness to lend into the repo

market” (BIS, 2019b: 13-14). Repo rates spiked as a result, and one cannot exclude the possibility that another run on the money market might have occurred, had the Fed not intervened with its large-scale repo funding of last resort. Alas, by saving the day, the Fed also saved levered-up speculators and their financiers, once again socialising the costs of elite leveraging and putting resources into an infrastructure of liquidity governance that is geared towards ensuring money-making for the rich.

Defund the rich! For a radical politics of monetary restitution

The bitter irony of our time is that while a moral economy of debt in the form of guilt and austerity has been imposed on the poorer strata of society, its elites have learned how to stop worrying and love the leverage bomb. For not only have they intensified their indebtedness by obtaining ever-growing volumes of bank loans; they have also magnified their capital and arbitrage gains through the largely invisible debt exposure of big banks, hedge funds and money-managers that have been leveraging on their behalf. Trillions have been conjured up to finance a leverage-driven game of money-making that has mostly benefited an elite of too-big-to-pay debtors and their sycophant financiers. In this respect, one might be tempted to reverse the conventional narrative about the power of finance and proclaim the structural power of debtors over creditors. This, however, would lead to yet another misdiagnosis of contemporary financial struggles. For rather than fuelling a conflict between creditors and debtors as two distinct classes, contemporary finance has set debtors against debtors, and namely the greater borrowers against the lesser ones, thus giving shape to a historically specific form of class struggle whose deeper dynamics cannot be seen as long as we continue to look at finance through the traditional lens of the creditor-debtor dichotomy.

As critical accounts of finance continue to portray global elites as creditors, they inadvertently relieve them of the economic burden and political responsibility they should bear. To refer to the rich and ultra-rich as lenders and investors it to obscure the tragic truth that these are in fact absentee debtors who have mortgaged the future to plunder the present. We need a new politics that critiques and addresses the contemporary political economy of leverage as power, and a new language for making sense of global finance and the struggles that it arouses. Taxing the wealth of the elites is only reasonable at this point, however, it will not take away their ownership of, and privileged access to, the means of leverage. Proclaiming a Universal Debt Jubilee or a Great Reset, as the World Economic Forum is currently suggesting, will only grant them with an undeserved clean slate. Retaining cheap credit policies in the name of perpetual crisis management will only continue to make them richer. Radical progressives have been advocating for Universal Basic Income and a Green New Deal on the grounds that these policies would provide economic respite for the many and help tackle climate emergency. While such political projects might indeed save the planet, improve material conditions, and defuse social conflict, they are not going to address the political economy of leverage outlined in this article. To harness the power of finance, we must aim for more than a progressive politics of fiscal redistribution and maybe a return to Keynesianism: we must *defund the rich*, and to achieve this goal, we need a radical politics of monetary restitution that has no precedent in history.

By ‘monetary restitution’, I mean more than ‘payment’, ‘compensation’, simply returning the money that has been borrowed, as if to settle the scores. For this money would be once again a debtors’ money that could not truly redeem or extinguish the sort of obligations that are owed to future generations: it would be just another promise, part of a skein of promises rolling over into the future. Occupy protesters did not scream for mere monetary redistribution

but for *equity*. The latter is generally understood as ‘fairness’ or ‘justice’ – that is, something that is achieved through good governance, accountability and transparency. However, in its more specific legal-financial acceptation, equity also refers to *shared ownership*. These two dimensions of equity are inseparable. Granted that contemporary money is not a scarce good but potentially cost-free energy for the world economy, and that states are already backing up the global financial infrastructure with their safe assets and other forms of legal-economic insurance for the money-creating banking complex, then *the general public should have an actual stake, or involvement, in the business of making money*. In other words, monetary institutions should be returned to the people and central banks should be first on the list.

Monetary policy, which at present is covertly politicised to avail the interests of the greater borrowers, should be taken away from technocrats. Central bankers might think of themselves as Platonic philosopher-kings, yet their pretence of knowledge is often based on abstract economic models of reality that are only representative of their ignorance (be it strategic or genuine). Experts are and will be needed to carry out all sorts of credit policy, open market operations, QE, ad-hoc bailouts and so on. However, the choice of what goes into the portfolio of a central bank should not be the behind-closed-doors prerogative of some benevolent technocrat, but a matter of public debate. Monetary autonomy *is* fiscal sovereignty; as such, it should never be abdicated in favour of an enlightened despotism of expertise. The same discourse applies to banking at large. Decisions about how banks exercise their unique power to create money should be politicised to include all stakeholders. Banks’ liquidity and credit risks are not borne by shareholders (whose equity capital is not even enough to fund 5% of total bank liabilities, and this is without considering off-balance-sheet debt exposures); they are socialised among the much larger population of account holders and are ultimately shouldered by the public. This being the case, it is only fair that *all* bank liabilities be treated as equity shares conferring voting and stewardship powers to bank account holders or their elected representatives. Admittedly, it would be easier for a camel to go through the eye of a needle than for laypeople to occupy the temples of modern money and finance. However, to repurpose money as a public resource and reclaim a future of prosperity for the many, the headquarters of global money and finance must be democratised, as many a critic have advocated. Without a radical politics of monetary restitution, progressive fiscal redistribution will only deliver ‘small change’.

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Notes

1. <<https://www.weforum.org/agenda/2020/06/now-is-the-time-for-a-great-reset/>>.
2. The next top 11.1% possesses 39.1% of total global wealth (Credit Suisse, 2021).
3. Global banks are notoriously known for devoting a considerable share of their loans and investments to proprietary trading and the financing of other elite financial firms, as will be

demonstrated later in the article. This has been caustically referred to as banks 'banking for themselves' (see Engelen et al., 2011).

4. <<https://www.census.gov/data/tables/2019/demo/wealth/wealth-asset-ownership.html>>.
5. Having said this, income should not be singled out as *the* determining factor. Other factors such as wealth, gender, and race might have played a much more significant role in the construction of subprime borrowers, and further research is warranted in connection with this.
6. This neoclassical view of capital is held for instance by Piketty (2014), Kumhof and Ranciere (2010), and Mian, Sufi and Straub (2020).
7. <<https://www.barclayhedge.com/solutions/assets-under-management/hedge-fund-assets-under-management/>>.
8. <<https://www.forbes.com/sites/garthfriesen/2020/05/03/profits-from-fed-balance-sheet-expansion-could-top-140-billion/#3af378e43259>>.
9. See the press release by the Federal Reserve Board, dated January 14, 2022: <<https://www.federalreserve.gov/newsevents/pressreleases/other20220114a.htm>>.
10. <<https://www.reuters.com/article/us-usa-fdic-results-idUSKBN2AN10C>>.
11. <<https://www.stlouisfed.org/on-the-economy/2018/september/fed-payments-treasury-rising-interest-rates>>.
12. <<https://seekingalpha.com/article/4307665-repocalypse-little-crisis-roared>>.
13. <https://www.federalreserve.gov/releases/z1/dataviz/z1/changes_in_net_worth/chart/>.

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