The rich get richer, the poor get Bitcoin

Can Bitcoin solve wealth inequality?

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Bradley Rettler | Assistant Professor of Philosophy at the University of Wyoming whose Bitcoin research can be found at https://resistance.money.

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Bitcoin is a buzzword and some argue it's a scam. But with Elon Musk's Tesla recently investing $1.5 billion into the cryptocurrency and with the Mayor of Miami considering giving city employees the opportunity to get their salaries paid in bitcoin, the cryptocurrency could be about to radically alter our monetary system. One of the unexpected, underappreciated consequences of this move to Bitcoin could be a closing of the wealth gap, writes Bradley Rettler.

Introduction

Global wealth inequality is increasing. Meanwhile government-backed currencies, where most of the poor save their money, are devaluing each year. Poor people lack access to banking, and they can't get credit. This is at its most extreme in economies in crisis, but is true all over the world. Using Bitcoin can mitigate these problems and level the playing field for the world's poor as we work toward economic justice.

Owning Cash is a Losing Game

Between 2016 and 2019, the inflation rate of the Venezuelan bolivar was 54,000,000%. Of course, no Venezuelan wants to hold bolivars, because they are worth less each day. For those who do have bolivars in their bank account, banks have strict withdrawal limits. Families use upwards of ten debit cards from different accounts and different banks just to buy groceries. Given the government's stranglehold on finances, the average person cannot easily acquire other assets. And their bolivars are also often confiscated by police or the military.

This situation is not unique to Venezuela. Many countries' government-sponsored currencies are rapidly devaluing, including Turkey, Nigeria, Lebanon, Zimbabwe, Argentina, Iran, and South Sudan. The privileged wealthy in those countries have no problem weathering the storm. They've abandoned the ship of local currency for the lifeboats of foreign equities and foreign currency. The poor, by contrast, have no such luxury. They are paid in local currency, pay others in local currency, and save what they can in local currency. They lack the opportunities of the wealthy. Their ships are sinking, but they have no lifeboats.

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As their currencies devalue, the poor's share of the country's wealth decreases because they lack access to safer investments. Making matters worse, many countries have no banking system. For example, 76% of Kenyans don't have a bank account; they make do, instead, with the M-Pesa payments network via mobile phones. This works well as a medium of exchange, but not for storing value. Should the Kenyan Shilling devalue (beyond its current rate of 5% per year), their options are limited. The wealth gap increases.

This phenomenon isn't unique to countries with rapidly devaluing currencies – it's just more noticeable. Almost every government-backed currency is designed to devalue over time. The wealthy store very little of their wealth in cash or cash accounts. The rest of us aren't so lucky. When we want to save, we save in fiat. And that is a losing play.

It is very hard to stash away just a few hundred dollars in real estate; most of us don't have a way to buy fractions of houses. One might think that apps like CashApp and Robinhood are helping people who are only able to invest miniscule amounts in the stock market. This is a sorely needed service, but it's not without concern. First, both sell their order flow to Wall St, allowing Wall St to use that information to front run retail investors. Second, they both use slow, centralized clearinghouses, which can prevent retail investors from making purchases they want to make (like buying stock in GameStop).

The wealthy also easily take on low-interest *debt* in a currency that gets easier to pay back over time and use it to buy *assets* that hold or increase their value. The poor cannot; they have less access to low-interest debt and so pay off debts less easily. Almost every country's currency is designed to devalue over time. This is a debt-forgiveness program for the global rich – rich individuals, as well as rich countries.

Owning Bitcoin is Better

Bitcoin can help. Whereas governments can issue their currencies at will (for example, the US government printed $9 trillion in 2020 -- 22% of all the USD ever minted), this is not possible with Bitcoin. The rules embedded in Bitcoin's software dictate that its supply schedule will unfold predictably until there are 21 million BTC by 2140; the supply is capped at 21 million.

And Bitcoin is inclusive. To buy some, you only need access to a phone or computer with an Internet connection, or visit a grocery store with a Bitcoin ATM; it is significantly harder to invest in stocks or get a bank account, especially for those who aren't already socio-economically privileged. The global poor can safely hold whatever wealth they have in Bitcoin without worrying about that wealth being devalued as a result of increased supply.

Bitcoin is resistant to seizure, which also benefits those who flee oppressive regimes with their life savings. Cash is bulky, and gold is heavy. Authorities and thieves detect and confiscate both. How does one get their life savings to their new country? One solution for many has been to keep Bitcoin in a digital wallet with a memorized "seed phrase". To do this, one memorizes a string of 12 random words which can be used to unlock their Bitcoin savings when they arrive safely at their destination. And would-be thieves have no idea which random person traveling through an airport has such a wallet.

Bitcoin can also help solve problems in countries with healthier economies, including the US, my home country. I'll talk about three: credit, banking, and storing value.

First, credit. Credit is a tool to build wealth. People who can borrow to, for example, buy homes or start companies, can then pay back the debt slowly as the currency devalues. But those who need it most get it the least. US history has shown that credit is not extended equitably. The clearest example is redlining, where the federal government color-coded neighborhoods in terms of willingness to loan at various interest rates, and for those color-coded red, the Federal Housing Administration refused to insure mortgage loans to people living in those neighborhoods; these were primarily lower-income black people living in urban areas. This locked lower-income black families out of home-ownership, which is the primary vehicle for rising to the middle class. Redlining was banned in 1968, but its effects are still seen today. Black families own 1% of the wealth in America today; they owned 0.5% in 1863 when the Emancipation Proclamation was signed. White families today have nearly 10 times the net worth of black families and more than eight times that of Hispanic families.

Being shut out of the credit market is economically devastating, and so people seek credit elsewhere. Each year 12 million Americans (6% of American adults) take out a payday loan, making it a multibillion dollar industry. The average loan is $375, and the average loanee pays $520 in interest.

People deserve a vehicle to store the fruits of their labors. Bitcoin can fill the gap now, even as we fight for a more equitable and just system for all.

The second problem is a lack of banking. Over 7 million US households were unbanked as of 2019. Unbanked people pay to cash their paychecks, to get money orders to pay rent and utilities, to get prepaid debit cards, and so on. The average unbanked family pays $2400 a year on financial transactions like these alone, a whopping 10% of their annual income. The unbanked pay approximately $89 billion per year in total transaction fees.

Bitcoin mitigates both the banking and borrowing problems in the US. In relation to banking, it's important to note that the unbanked still have income – but it comes in the form of checks that cost money to cash. Bitcoin costs nothing to receive, and about $10 to send. And with protocols like Lightning that run on top of the Bitcoin network, the cost per transaction is pennies. If unbanked people were paid in Bitcoin and could pay bills in Bitcoin, the cost of their financial transactions would be miniscule. And they can easily and cheaply convert some of their Bitcoin to USD if they so desire.

Bitcoin can also help those who have turned to payday loans. Such a loanee is often unbanked, and, remember, the unbanked pay about $2400 per year in transaction fees. Cutting those transaction fees to <$1 per year would mean that they'd keep the equivalent of ~$200 per month. Since the average payday loan borrower is ~$26 short per month, a significant majority of those who take out payday loans would no longer need to do so. They could avoid this predatory industry altogether.

So much for banking and credit. Finally, consider storing value. There are systemic factors that make it difficult for people who aren't already wealthy to store value. Regulators tend to think that, for people's own good, they shouldn't be allowed to make risky investments. (Except the lottery, apparently.) So the rich get richer because of their access to stable stores of value like hedge funds, venture capital investments, and so on, and the poor do not. Holding Bitcoin at least keeps their money safe in a currency that won't devalue due to increased supply.

One might think that holding cash in a savings or checking account isn't risky. First, not everyone can open a savings account; Bitcoin is more inclusive. Second, savings accounts aren't risky in this sense -- your money will be there when you need it. But they are risky in another sense -- your savings will be less valuable when you take it out. $100 in 1950 is worth $1080 today; by holding USD for 60 years, it loses $1000 in value. Bitcoin, by contrast, has gained value every year of its existence (save one), and it has gotten less volatile every year. And of course, one needn't save *only* in Bitcoin.

People deserve a vehicle to store the fruits of their labors. Some people have access to many such stores of wealth. But those who need them most tend not to. Bitcoin can fill the gap now, even as we fight for a more equitable and just system for all.

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