Funding the Future

The stock market increases inequality, not wealth

Published: April 9, 2026, 8:00 am

Those who peddle narratives that have little relevance to reality about the benefits of supposed saving in UK stock exchange-based shares and securities are back in action. As the FT notes today:

Asset managers have been urged to drop “boilerplate” risk warnings in favour of more balanced explanations of the pros and cons of investing, as the UK government seeks to encourage Britons to be more ambitious with their savings.

Repeatedly telling consumers their “capital is at risk” and they could lose money in financial markets has driven UK households to invest the lowest share of their wealth in equities of any G7 country, according to a new report commissioned by chancellor Rachel Reeves.

The risk warnings review, published on Thursday, told fund managers to provide customers with “simple, accessible explanations of how investments can rise and fall, presented alongside relevant benefits and explicit time horizons”.

Let's be clear: there is either a fundamental error of economic judgement, or a deliberate attempt to economically mislead at the heart of the thinking that has given rise to this report, whose aim is to promote increased saving by UK people in the London stock exchange.

The implication of the desire to promote this sort of savings is that stock markets are essential for funding investment and creating jobs, and that if only people saved more in the stock market, we would have a stronger, more prosperous economy.

Politicians repeat this claim.

Commentators assume it.

Financial advisers seek to sell it.

And economics textbooks embed it as if it were a self-evident truth.

It is not.

To understand why, we need to be clear about what stock markets actually do. And when we do that, the conclusion is unavoidable: the contribution of stock markets to new investment and job creation is marginal at best, and often close to zero.

This does need explanation.

What the stock market really is

When discussing stock markets, two very different markets are routinely conflated.

First, there is the primary market. This is where companies issue new shares. It includes:

- initial public offerings,
- rights issues, and
- share placings.

When these happen, companies do receive cash as a consequence. That cash can, at least in principle, then be used for investment.

Second, there is the secondary market. This is what most people mean, most of the time, when they talk about “the stock market”, and this is the market that is almost invariably being referred to when mention is made of savers supposedly investing funds in such markets. Here, existing shares are bought and sold between investors.

This distinction between the primary and secondary markets matters because:

- In the primary market, companies get money.
- In the secondary market, they do not. No one should pretend otherwise; this is a fact.

Every time a share is traded in the secondary market on the London Stock Exchange, the money that changes hands is between investors. The company whose name is on the share certificate that has been bought or sold does not receive a penny from the transaction.

So the key question that needs to be answered becomes obvious if we are to determine whether stock markets really add to the stock of real investment in productive assets and job creation in the UK. It is, how much of UK stock market activity is actually in the primary issuance market?

The scale of the difference

The straightforward answer to this question is that very little UK stock market activity takes place in the primary issue market.

The total value of the UK stock market is measured in trillions of pounds. The current total value (and this figure, obviously, changes all the time) is around £3.5 trillion.

The volume of trading each year also runs into trillions, as shares are bought and sold, often many times over. The precise figure for the level of trade is a little hard to determine, given that some trades take place through options and other such arrangements, but it is entirely reasonable to think that the volume of trades may be well in excess of £5 trillion annually.

By contrast, new share issuance in a typical year amounts to tens of billions, and many of these relate to takeover deals and not to the raising of funds for investment in new assets.

This data implies that, give or take margins for error:

*
Well over 95 per cent of stock market activity is second-hand trading.

*
Often more than 98 per cent is.

In other words, the vast majority of what happens on the stock market has nothing to do with raising new funds for companies.

What little new money is raised

Even within that small proportion of activity that does involve new share issuance, the story is not what the textbooks suggest. That is because not all new equity is used for new investment. A significant proportion is used for:

*
Mergers and acquisitions

*
Balance sheet restructuring

*
Paying down debt

*
Financial engineering of various sorts

Only a part of the new issuance is used for what might reasonably be called productive investment, such as building productive capacity, developing products, or employing people. As a result, even within that tiny share of activity that might fund companies directly, only a fraction results in new jobs or new productive activity.

The conclusion is stark. The proportion of stock market activity that:

*
provides new funds to companies, and

*
results in real investment and employment

is very small indeed.

A reasonable estimate is that between zero and two per cent of stock market transactions have any direct link to new investment, and in many years, it is closer to negligible than significant.

To quantify this, in 2020 and 2021, maybe £80 billion of funds were raised for this reason. More typically, between 2022 and 2025, it is likely that the average sum raised each year was between £15 and £30 billion per annum.

To contextualise this, it is likely that the cost of subsidies provided to pension funds per annum in the UK exceeds £80 billion, as I have explained in my **Taxing Wealth Report**.

What the stock market actually does

If, in that case, stock markets do not meaningfully fund new investment, what is their real function? It is fair to say that they do three things.

First, they provide liquidity. Investors can buy and sell shares quickly and easily.

Second, they facilitate what economists like to call 'price discovery'. Markets supposedly establish a constantly changing estimate of what companies are worth, but this claim has to be treated with caution, as what markets actually do is value very small holdings in the shares of a company that may not be indicative of its value as a whole, meaning that this claim can be misleading, a fact that is exacerbated by the reality that many such values are greatly influenced by irrational sentiment and general market trends.

Third, they allow wealth to be traded. Ownership claims on companies are exchanged between investors, often at high speed and large scale, but it should be stressed that this activity does not necessarily add any value to the economy as a whole.

All of these functions are real, but none of them results in the companies whose shares are traded receiving any new funds.

Why the myth persists

Despite this, the idea that stock markets fund investment remains deeply embedded in public, political, and economic discourse and is beloved in the City of London. There are three reasons for this.

First, economics teaching focuses on the primary market and largely ignores the secondary market. As is also the case with economics teaching on money and banking, what is taught here is deeply misleading and closer to an economic fantasy than to reality.

Second, policymakers like the narrative. It provides a convenient justification for prioritising financial markets, even though they actually add very little value to the UK economy and only create a lot of economic noise that, however, feeds into the hype on which politicians thrive.

Third, the existence of initial public offerings creates the illusion that raising new capital is the norm, when in reality it is the exception.

The result is a persistent misunderstanding of how modern capitalism actually works. It is not about wealth generation. It is, instead, about wealth accumulation, and the two are usually unrelated.

The implication

The implication is clear, and it matters. Stock markets are not, in any meaningful sense, engines of investment. They are overwhelmingly markets in existing financial assets. They are mechanisms for trading wealth, and not creating it.

If we are serious about increasing investment, creating jobs, and transforming the economy, we do need to look elsewhere:

*

to government spending

*
to bank lending, and

*
to retained corporate earnings

Those are the mechanisms that actually finance real economic activity.

The stock market, for all its noise and scale, plays only a marginal role.

It is time that:

* our politicians realise that this is the case,

* our news media stopped broadcasting stock exchange information every hour on the hour,

* economics started talking about the reality of the world we live in,

* investment advisors understood what they are really talking about when engaging with clients, and

* the City of London was put in its place, and is properly described as the engine for creating inequality that it really is.

Then, and only then, might we create the focus we really need on the investment required to regenerate our economy on a sustainable basis. Nothing about our existing structures is likely to deliver that outcome, and the stock market, by its own choice, is intentionally peripheral to this task. That is what we need to understand about it, and too few do.