A Banker Reflects on

Money, Love and Virtue

Maria José Pereira

Published in this first edition in 2015 by:
Triarchy Press
Station Offices
Axminster
Devon
EX13 5PF
England

+44 (0)1297 631456
info@triarchypress.net
www.triarchypress.net

A catalogue record for this book is available from the British Library.

Paperback ISBN: 978-1-909470-60-6
ePub ISBN: 978-1-909470-61-3
pdf ISBN: 978-1-909470-62-0

In memory of my husband,
Ernesto Melo Antunes,
and dedicated to the young
who will create the future.

Contents

Acknowledgements

I begin by thanking Graham Leicester, who accompanied me throughout the gestation of this book, the idea for which arose from a discussion, my first with him in September 2010, and culminated in his finding my editor and publisher. I am also grateful to other friends at International Futures Forum (IFF). In particular, I thank Napier Collyns, who prodded me along with valuable suggestions and encouraged me more than any other; Mick Costigan, who added to the content and form of my book with his structured and incisive thinking; Roberto Carneiro, who guided and supported me and introduced me to IFF; Maureen O'Hara, who helped with her critical reading of early writings; Andrew Lyon and Alison Linyard who allowed me the space to present and discuss my ideas at a seminar in Glasgow in October 2013; Tony Hodgson, Bill Sharpe and others who advised through a critical review of my manuscript at the Boathouse in the same month; and Martin Albrow, David Hodgson, David Lorimer, Jennifer Williams and Saul Wainwright for early contributions and discussion. I also thank Mairi Heneghan for the help she extended.

To Luigino Bruni, I give special thanks. Our weekly discussions over three months at the Sophia University Institute near Florence in 2011 allowed me greater insight into the writings of Aristotle, Adam Smith, Antonio Genovesi, John Stuart Mill and other economists. He enriched my understanding of the purpose of economics and how it need not be abstract but humane, with a place for virtue and friendship. I thank Piero Coda for a better understanding of Augustinian writings on love and I thank Antonio Baggio, Bennie Caillebaut, Benedetto Gui, Pier Luigi Porta, Judy Povlius and Sergio Rodinara for the opportunity to learn from these scholars. I am grateful to the economist Stefano Zamagni for receiving me at the University of Bologna. I was inspired by my conversations with him and by his wealth of knowledge, not only of economics but of history and civil society. I thank him also for generously reading, and suggesting improvements to chapters in this book.

I am grateful to Manuela Silva for her clarity of vision and intelligent expression and coherent example of 'a life well lived', and for her constant support and tireless critiques. I thank Peter Sprinkart for his professorial advice on my writings and for deepening conversation and friendship of many years. I thank João Lobo Antunes, neurosurgeon and writer, for generously critiquing my chapter on compassion and collaboration. I am grateful to my step-daughter, Joana Melo Antunes, whose perceptive reading gave the book a clearer voice. I thank my god-child, Charlotte Munson, and my niece, Amanda d'Almeida, who read drafts from the perspective of the younger audience that I hope to engage.

Old friends and ex-colleagues on Wall Street provided me with an avenue to discuss financial developments. They critiqued chapters on economics and finance. For this I thank Charles Abrecht, Charles Blood, Tom Hardy, Jonathan Hirst, Peter Munson, David Cripps and in particular Jeff Schoenfeld, Paul Drexler and Janet Nicolini for their presence and advice as I reworked my book. I am grateful to Paul Woolley for reinforcing my belief in investment with a long-term view and to John Fullerton for his commitment to constructive finance and natural capital. To other friends, for conversations and helpful criticism, I offer thanks: Richard and Marilyn Collier, Hilde Munson, Marianne Felici, Blake Lannon, Clare Micuda, John Lombardi, Zibby Munson, Fiona Walker, Herbie Weiss, Joan Wallace, Olivia Bina, Anne Cripps, Nora Lam, Flora Lam, Sweeta Motwani, Firoz Manji, Minnie Freudenthal and Manuel Rosário. And I remember Dinky Salzborn, my first reader, whom I miss in this world.

I thank Laurence Freeman, OSB, for the gift of meditation through the eye of the heart, which enables a deeper understanding of the world, and for teaching me that meditation is a first step towards action. I thank my cousins, Arthur and Barbara Leyden, for advising me on the cover design and for opening up their home as a base for my periods of study at the Cambridge Library, and my sister and her husband, Virginia and Carlos d'Almeida, for welcoming me and enabling my research in California. I thank Anca Ellenbroek for her kind hospitality in Italy and Monique Bryers for hers in London, so facilitating my research at the British Library. I thank relatives and friends for their support and understanding over my frequent 'disappearances' while working on my project. Although work on this book has taken four years, it is the result of the experience of a life, particularly with my husband, Ernesto Melo Antunes, who deepened my understanding of the Ciceronian ideal of the philosopher-statesman. I am grateful to my family, friends and people that I have encountered who convince me that the vision of money, love and virtue, working in harmony, is possible. I need not name them all; they will recognize themselves in these words.

I end by thanking my editor and publisher, Andrew Carey, for believing in my work and making my text clearer and more engaging. To all I am grateful for their contribution and take sole responsibility for my conclusion.

Preface

This book is a reflection on how money, love and virtue are intertwined. It is designed to be read by people who may not have an extensive knowledge of economics or finance, history or philosophy, but who have an interest in the present and the future. My intention is to engage again with the humanistic insights of great thinkers, some of whom we may have forgotten or overlooked, to help us to focus on our humanity, as the foundation for an economic and financial order that can serve us well. I look at a number of issues central to this discussion in order to illustrate how we are interlinked with our past and the present and with each other and how we define our present through action.

In our world, where economic and financial challenges appear to be increasingly overshadowed by threats to our peace and security, and where fear, antagonism and a loss of hope seem to have gripped many, it becomes more urgent that we be guided by an *imagined ideal*. More than ever, we need to reflect on what it means to be human and to collaborate in constructing a world where money, love and virtue work together and not in contradiction, for only in such a world can we find peace. I hope this book will prompt reflection, discussion and beneficial action, for together we form society and define the world in which we live.

Maria José Pereira (a.k.a. Melo Antunes)
1st March, 2015

Introduction

Reflection on Three Central Concepts

"We have involved ourselves in a colossal muddle,
having blundered in the control of a delicate machine,
the working of which we do not understand."
John Maynard Keynes

"History is always being begun anew; it is always working itself out."
Fernand Braudel

"The great secret of morals is love."
Percy Bysshe Shelley

The Path to Reflection
The Need for Reflection
Three Central Concepts
Design and Progression of the Book

~~~

The Path to Reflection

When money, love and virtue are mentioned in the same breath, most people respond with surprise and scepticism. What do these notions have in common? Surely they belong to different realms? Money and virtue? Mutually exclusive. Virtue is an old-fashioned ideal, with a hint of hypocrisy. Love? A romantic illusion. It has nothing to do with money, other than the love of it. Money is about competition and accumulation. So goes the typical response. But others are intrigued by the apparent contradiction and want to take the discussion further.

For myself, I have come to believe that money, love and virtue are not alien, nor even opposed, to one another, but intertwined. They thrive together. Representing different dimensions in our lives, they share a common ground in us, the people who live those lives. Money permits our material welfare and wellbeing. Love fulfils our emotional and spiritual needs. And love inspires virtue, which allows the person to live in harmony with the world. When all three are reconciled in a life, there is the seed of happiness. Where they are not, fragmentation, contradiction and opposition result – conditions that promote discontent. Once reconciled, money, love and virtue lead to a life well lived, a happy life, and permit a world of which many only dream.
~~~

How did I start this reflection? Having spent my whole career in finance, I observed with deep discomfort the gradual degeneration of the established financial model: the eruption of corporate scandals, such as WorldCom and Enron, the increase in leverage and speculation causing the collapse of Long-Term Capital Management,[1] and the eventual explosion of the subprime crisis leading to major financial disruption in 2008. The unethical, speculative and extractive behaviour that all this revealed was disconcerting. This kind of behaviour was becoming accepted and tolerated and in fact proliferating. The erosion and abuse of trust that permitted it took place largely unnoticed until the financial crisis finally and fully revealed it in all its dismal reality.

Reflecting on the financial malaise led me to ponder the purpose of money and to imagine a financial model that would better serve investors and the world at large. This led me initially to an inquiry into sustainable investment, a long-term approach that considers not only profits but also benefits to society and the preservation of nature. Sustainable investment integrates previously unmeasured components into the business model: environmental externalities and social factors.

While recognizing the urgent need to account for the depletion of nature and the effects of climate change – and the cost of redressing both – as well as incorporating social considerations into economic and business decisions, and in fact believing that the vision for sustainable investment is an exciting one, I became convinced that the issue confronting us was bigger than numbers alone could convey and that a purely market response was inadequate. There was something much deeper at play, something that touches our human condition, and that we can only address by reintegrating the human dimension into the financial and investment equation.

When, not yet confident of my own vision, I began discussing sustainable investment with other financial professionals, I vaguely conceded that investment is about making money, about self-interest[2] and not about morality. The financial collapse in 2008, followed by successive financial scandals and even fraud, revealed the inadequacy of this position and the myopic perception of self-interest that had been adopted. The crisis arising from the unfettered operation of financial markets due to the dismantling of regulation and laxity in supervision led to calls for the return of prudential regulation. While proper legislation clearly has a vital place, I sensed that alone it would not resolve the fundamental problem, for investment encompasses much more than making money at any price. It also entails responsibility to the community at large, which is implied by the idea of 'enlightened self-interest'. Economic wellbeing stems not simply from money creation, but also from ensuring the dignity of the human being who is at the heart of the economy.

The financial collapse spurred on attempts already under way to reform our economic model. Initiatives to address this challenge have included looking beyond economic growth into wellbeing and happiness. However, this approach depends largely on measurement using surveys and indicators. Is this an adequate way to deal with the reality of the human condition, or do we need to go beyond numbers? In conversation with an economist tasked with looking into wellbeing, including happiness, I asked why there is no discussion of philosophy within economics, for philosophy considers fundamental issues around happiness. His response was categorical: philosophy is subjective and economics is an objective science. Again I found myself in uncomfortable territory.

I needed to digest his comment, which is one that underpins our current view of economics and embarked on an exploration of philosophy and economics. After all, did not economics begin within the school of philosophy?[3] As money is central to economics, I felt a need to understand the purpose of money and its impact on human beings, to explore the role of debt and investment, and to analyse the degeneration of our financial system in recent times. I believed that in order to move forward, I had first to go back to classical thought to understand the rationale and philosophy inherent in the organization of society, to discover the original intentions and vision for the economy and money and to rediscover lessons offered throughout the course of history.

I also had to reflect on human behaviour and aspirations. I needed to reconcile the criticism rightly directed at the banking and investment world with the responsible behaviour of many bankers and investors that I know and esteem. I felt the crisis arose not from just one sector, but out of a disintegration of the fabric of society – a disintegration in which we all play a part. This disintegration contributed to all kinds of excesses, particularly in relation to money. For this reason, I believed it necessary to examine more than just the economy and finance. In my circle are to be found the privileged, others living their daily existence as best they can, as well as innocent victims of the financial collapse, angered by the consequences they, their family or country have had to suffer. All of them live within the same economic and financial system that has been created over time. Despite differences in material circumstances, all of them possess a similar desire for security, comfort, peace and happiness. Some have been helped by fate, others not.

In order to understand how our lives and our world are shaped and how this might be reflected in our economic and financial systems, I turned to a number of leading thinkers from classical Greece to the present day. In my study, both within the material and the personal realms, I discovered that important ideas associated with thinkers and writers of the past have often been partially (mis)represented or else interpreted and highlighted so as to appear to endorse a particular approach or point of view. Inconvenient gems that have been forgotten need to be recovered. When a message of hope has been left aside, it must be restored. So I shall refer to a wide range of writers from different disciplines: conservative as well as forward thinking, religious and not. Some may seem outdated or inconsequential. Some are in the news now. In this process it is impossible to include everyone of relevance, and I have certainly bypassed writers who are just as important as those mentioned. The ones I discuss are those whose words have struck me for their pertinence or timelessness. I pretend no expertise. But these writers helped me think, and perhaps they will do the same for you.

The Need for Reflection

This book is a reflection, which is an indispensable step towards the kind of understanding that leads to deeper knowledge. A lasting solution to any challenge cannot be arrived at without comprehending all its facets, and this important step goes beyond the gathering of information. Our society gives priority to information and logic. We prize data, statistics, modelling and theory. This is the objective world within which economics and science operate, giving us much that is essential. However, it is through the subjective world that we gain deeper understanding via experience and reflection.

In order to reflect, we need leisure or time that is not packed with activity. Leisure is often thought of as time for entertainment, but it can be time for thought, for reflection. That is why the German philosopher Joseph Pieper, in his essay on *Leisure: the Basis of Culture*, writes about 'intellectual contemplation'. Borrowing from Thomas Aquinas (1225-1274), Pieper argues that knowledge requires "an element of pure, receptive contemplation, or as Heraclitus says, of 'listening to the essence of things'".[4] It requires attention and penetrating thought.

He describes how great medieval scholastic thinkers drew a distinction between *ratio* or logic, and *intellectus* or contemplation. "*Ratio* is the power of discursive, logical thought, of searching and examination, of abstraction, of definition and drawing conclusions. *Intellectus,* on the other hand, is the name for the understanding... to which truth offers itself like a landscape to the eye."[5] It is getting a glimpse into universal truth and understanding what it is to be human. It is pure contemplation, without any discursive interaction. Today many call it meditation. In classical times and during the Middle Ages, no knowledge was seen to be complete without both reason and contemplation, the objective and the subjective.

In our times, we value *ratio*, but do not much appreciate *intellectus*. With the advent of Modernity we began to lose this very important dimension, as we focused primarily on objective science. There is no denying the advances that science has allowed us. It has indeed permitted us to enhance our living conditions through improved health and material welfare. It has opened up new horizons, including technology that can serve us, if used well. But in the process, it risks turning us into mechanical beings, who use our discoveries to our own detriment, by losing sight of the timeless wisdom gathered in the course of our civilization and forgetting our human dimension. In order to regain an appreciation of what it means to be human, I believe that we need to recover *intellectus*. Reflection is an indispensable part of any action that serves humanity, for it deepens knowledge and helps us to understand that action has ramifications that radiate out into the world.

Three Central Concepts

This book, a product of my own reflection, proposes that we explore an *imagined ideal* that will restore humanism, a dignified vision of life that has the relational aspect of our lives at its heart. For some people, humanism implies an agnostic view of life. This is not necessarily the case. Regardless of whether one subscribes to a religion or not, humanism presupposes consideration for the other, an intention to aim for the greater and common good and not simply for individual welfare. It involves living in harmony with each other and with nature.

Deep understanding and imagination are indispensable if we are to create a new reality with money, love and virtue working in beneficial union. At the most basic level, we organize ourselves around material achievement. Everyone understands this. Human action is prompted by material needs and they drive government policy. 'Basic needs' are for things indispensable to our survival, while 'surplus needs' bring comfort and pleasure. Hence, money,[6] which provides for material needs, is central to our wellbeing and allows us to flourish.

But there is another side to money, the nefarious side, which the recent international financial crisis unveiled. Developments leading up to that crisis are discussed later and serve as backdrop for the reflection of this book. The unrestrained pursuit of money creates harmful disruption, turning an indispensable and beneficial component of our economic system, money, into something destructive. In trying to understand the contradictions inherent in money, we shall explore the purpose of money, consider its two facets and see how the nefarious side may be tamed. That requires virtue.

Virtue makes the beneficial use of money possible. I use the word *virtue*, rather than ethics or responsibility, to highlight the Aristotelian concept of a life well lived. Aristotle is the starting point for this discussion. Not only was he a father of Western civilization, but he developed our thinking about money, love and virtue. He sees the economy as management of the material needs of the *polis,* or city state, and money as the unit of exchange for goods and services in the marketplace. For citizens to be well served in the *polis*, the use of money must be beneficial. Aristotle believes that in order to achieve this, a central requirement is proportionality, the appropriate division of wealth and resources. He writes not of equality, but proportionality, which is governed by justice, the central virtue.

How is virtue possible? For Aristotle, virtue is enabled by *philia* or friendship, which the Greeks represented as "the crown of life and the school of virtue".[7] *Philia* is love, inspiring virtue that ensures the smooth functioning of the *polis,* thereby permitting human flourishing, a precondition of *eudaimonia* or happiness:[8] "everyone enjoys as much happiness as he possesses virtue and wisdom, and acts according to their dictates".[9] Through friendship or love, virtue is made possible, and through virtue human flourishing and happiness arise, further expanding love.

In our times, we often talk about compassion, which is to partake of another's suffering. Love is born in compassion, but goes beyond it. Love results in joy, through which it replenishes itself, making love an infinite resource. It cannot flourish in isolation; participation is required. We do not discuss love as the fulfilment of a fleeting desire or as possession leading to pleasure. Rather, love is that which unifies, which defines us as human and which permits harmony and happiness. Understanding the potential of love, within our intricate interlinkages, is vital to any solution to the challenges we face. For many contemporary thinkers, love is a central theme of the new anthropology. Humanism can blossom with love.

Some may ask how we can reconcile love and money, as one deals with the ethereal and the other the material. But we can view both as satisfying different facets of the person. We cannot flourish if either is missing; both sustain us. If we arrive at understanding the connection between love and money, via consideration for the other and the common good, we will be able to grasp what it means to restore humanism to the economy and to finance. A vital component allowing for this is virtue. With reciprocity, love given and received, the practice of virtue is possible; without love, it is difficult.

Is such a vision realistic? Most may see this as an unattainable ideal. However, I maintain that we should not discard an ideal, simply because it seems unattainable. We can use it as a beacon to guide us. People like Martin Luther King, Mahatma Gandhi, Nelson Mandela and, in our contemporary world, the Dalai Lama and Pope Francis, with their elevated vision of humanity, have inspired many of us. If we desire a better world, we have to imagine a way and work towards it within society.[10] Our general perception of human nature is informed by a dark view, which is usually justified by reference to our history of aggression and violence, which we continue to live out today. This is seen as reality, but it encompasses just part of the human being and of our lives. Must we continue to entrap ourselves in a perception of reality based on unending strife and misery? Or, in shaping our social relations and our relationship with institutions and the state, can we evoke a more beneficial vision of humanity and steer our language and social norms towards a kinder future? Such a vision can be termed true or 'enlightened self-interest', for no self-interest that fails to consider the interests of the whole can provide lasting benefit.

These are important issues for concerned citizens to explore, reflect on, discuss and collaborate over, in order to create an economic and financial framework that will permit a more promising future. This is not a portrait of Utopia; rather it is a portrait of uncorrupted life,[11] for which there is deep yearning. I do not suggest that perfection can be arrived at, but if the influence of good is increased, so will outcomes be improved. Reflection and responsible action are indispensable and involve all, for "we are society".[12] Let us explore a solution through love and virtue, acting within the material realm of money to ensure that money serves its purpose. It is an *ideal* worth striving for, and along with many others, I believe that it is essential for our future and for our survival.

Design and Progression of the Book

This book is designed for people with an interest in the economic and financial system and how it may better serve the human community, even if the ramifications of the discussion go beyond that. My study of the material organization of society has helped me to realize that in order for people to be served with dignity, we must also live in dignity. This book offers a way to bring discussion of the immaterial into the realm of the material and to emphasize the importance of individual and collective action. Together we constitute society and shape our world.

The chapters that follow are connected essays dealing with key themes in our exploration. They portray my own reading. They are not intended to present an in-depth study of the issues, but to encourage deeper thinking about them. My purpose is to provoke reflection on important interlinkages, as a first step hopefully in bringing about understanding and beneficial action. In collaboration, we can move forward towards a better world. We are in crisis. We must *imagine* a better future and work towards it.

Chapter 1 looks at the economy as the process of managing our material needs, and money as the unit of exchange within the marketplace. It examines how the introduction of credit advanced human welfare by allowing trade and economies to expand and cities to flourish. Money has played a vital role in liberating humans from dependence, thereby explaining the strong association between money and our ideas of liberty. Investment helps build the future.

Chapter 2 examines how the process of 'financialization', while contributing to a virtuous cycle in its early phase, saw toxic elements creep in. Investment has assumed characteristics far removed from those it originally displayed, as a focus on the short term has become increasingly prevalent. While constructive finance allows enhanced economic welfare and progress, finance has shown its dark side through high leverage, a focus on short-term trading, speculation, excessive extraction of income, and even fraud, aided by deregulation and deficient supervision. The current financial model has contributed to inequality, a central challenge today, and to the destruction of our financial commons. It needs to be put right. Financial reform has begun with the introduction of regulation and more stringent capital requirements, but full reform cannot be accomplished unless this is accompanied by a reform of the behaviour of those acting within the financial system, by their fully considering the consequences of their action.

Chapter 3 discusses how the economy, when treated as an abstract concept without giving full consideration to the human beings it is designed to serve, can undo material improvements and dehumanize society, causing discontent. How we view *self-interest* and how we treat nature will influence our wellbeing. Consumption is not the purpose of life, and waste contributes to environmental degradation. The use and development of technology has implications for our humanity. While our renewed interest in the idea of happiness aims to restore the human dimension, it is not sufficient simply to provide new aggregate measures of happiness within our economic models. For true progress, we need to fully appreciate and restore the human dimension.

Chapter 4 examines the influence that our assumptions about human nature have on our actions. A negative and pessimistic view has not served us well. I suggest we reinstate a presumption of the underlying virtue of humanity with a perspective that embraces consideration and respect for the person and concern for the *common good*. In this way we will be able to restore virtue and dignity to the market. Justice comprises perfect law and institutions and also good action. Liberty entails a regard for the other through respect for the other's liberty. Virtue is served by understanding our human connection, relationship and interdependence.

Chapter 5 looks at compassion, which enables virtue. Biologists observe that evolution has resulted in greater cooperation and even altruism in some cases. Neuroscientists confirm the human capacity for empathy, which allows for the elaboration of moral rules, laws and justice systems. Through collaboration, we ensure that human needs are properly met within the economy and finance. True or *enlightened self-interest* must encompass the other and the universe at large.

Chapter 6 discusses love, which is our essence. Love is transcendental, but it is also human. It allows us to see the other in ourselves and to realize our full potential. It is the only resource that is infinite, as it replenishes itself through the joy it unleashes. Justice is the uniting of power and love. Love leads to unity and harmony, to a life well lived. It is the deepest manifestation of humanity and of happiness.

The **Integration** draws together all these threads. Finance should be a tool to realize human advancement. It is a means to provide investment, innovation, growth and prosperity. It requires trust and civic action, enabled by virtue. Love, incorporating respect, true understanding and collaboration, makes virtue possible. When working in harmony, money, love and virtue realize our social contract, a foundation of civilization. In this way a humanistic world can blossom and contribute to the common good.

Part I: The Material: Money

Chapter 1

The Economy and Money: Original Purpose

"Economics is merely the study of mankind in the ordinary business of life."
Alfred Marshall

"Economics… is not an exact science; it is in fact, or ought to be, something much greater; a branch of wisdom."
E.F. Schumacher

"Another name for debt is credit, a word derived from the Latin 'credere,' to believe. When we borrow or lend money, it is an act both of trust and of confidence."
Philip Coggan

~~~

Money facilitates market exchange and ensures the flow of goods and services; without money, the economy cannot function smoothly. Credit and investment permit economic flourishing and long-term wealth creation; investment builds the future. With the coming of Modernity, economic activity came to be seen as offering a chance for prosperity, enabling equality and ensuring liberty, as in the vision espoused by Adam Smith. This continues to be the key ideology underpinning free markets and competition, linking our economic aspirations with our political vision. However, the economic outcome depends on human action.

~~~

The Economy: Managing Material Needs

In his 'Treatise on Government', *The Politics,* Aristotle (384-322 BCE) begins with the declaration: "We see that every city is a society, and every society is established for some good purpose". He continues: a "society of many families [is] instituted for their lasting, mutual advantage".[1] Indeed, each household within society must organize its material requirements, those things that are indispensable for existence. The management of these needs is referred to as *oikos-nomos*, which denotes the 'law of the home' or 'home governance' in Greek. Thus, within each family unit, the 'ideal' economy was designed as a means of satisfying the family's requirements, with every member playing a vital role. The economy continues to be of utmost importance in the management of material needs today.

In Aristotle's time, the household comprised the master of the estate, his family and slaves. Some may think that Aristotle's vision is not appropriate for discussion here, because of its autocratic organization and the fact that his *polis* or city state, with slaves and women in subjugation, was quite different from our free and expanded world economy today. However, I believe it worth examining in order to understand the key objectives underlying an economy and the means by which they were attained in Aristotle's time, for this helps us to know its purpose, as well as the role of money and the impact of human behaviour.

Aristotle writes that it is part of human nature to require food, the most basic of needs. For him, the economy has a boundary*,* for it is to provide what we need. It is not limitless: "the acquisition of those possessions which are necessary for a happy life is not infinite". Within the economy, the family must manage properly what it needs. As human organization expanded into villages and then cities, families could no longer remain self-sufficient, so barter or exchange came into being. Within Aristotle's 'ideal' economy, production was the first step, for without production there were no goods. Excess goods, unnecessary for domestic use, were sold so as to acquire other goods that were either needed or preferred. Money was introduced in order to facilitate exchange, and the marketplace began to play a key role. In trade, a good or commodity is exchanged for money, which, in turn, is exchanged for another good or commodity.

For Aristotle, acquiring something by trade for use is legitimate; it has necessary value. Acquisition for pure monetary gain, or chrematistics, is not. Aristotle differentiates between *needs* and *wants*. For him needs are natural, and while an "economy requires the possession of wealth, {it is} not on its own account but with another view, to purchase things necessary therewith". Hence, he sees "money-making" for the "breeding of money" as "censurable", a dehumanizing activity. In our complex world, trade and gain are viewed through different prisms, and trade has helped advance human welfare. The accumulation of money or pure monetary gain is a fundamental characteristic of modern economics and finance, within the capitalist system. By studying Aristotle, however, we can perhaps see how money or property can be used well. After all, Aristotle also writes that "property is as an instrument to living". It plays a fundamental role.

His primary goal for the *polis* is harmony, a precondition for happiness. Harmony is made possible by the smooth functioning of the economy, thereby ensuring the common good. Each family contributed to the economic ideal, as described in *The Politics*. Just as in a household, today in our economy each member can play their part to ensure its proper functioning. Our global stage is much larger and more populous than in classical times. We live in a world with billions of households and multiple states and cultures. Most people have more rights than in Aristotle's hierarchical times, when women and serfs were not considered citizens. And the economic reality today is more complex and intricate. Nonetheless, we must understand the underlying objectives of the economy, if it is to work effectively, and each member of society must play his requisite part towards this end.

Our economic sophistication is advanced, but the underlying purpose for which the economy is organized remains the same: to meet the material needs of every member of society. It is designed firstly to respond to our most basic requirements, what we need in order to exist: food, shelter, clothing, health and other physical necessities. It ensures our safety and, in an affluent society, it provides leisure, art and luxuries, which give pleasure. Indeed, the economy is effectively the management of the provision of material things. With proper management, humans flourish. Equally, our wellbeing can be disturbed, either through denial of our material needs or through dissonance and discord caused by malfunctions of the economic system, such as extreme disparity in wealth and financial abuse.

Aristotle writes that humans are social and have “a perception of good and evil, of just and unjust, and it is a participation of these common sentiments which forms a family and a city”. For him, justice benefits all and implies proportionality, an appropriate sharing of resources, and he warns against the dangers arising from encroachment by the rich. Thus, for Aristotle the central requirement underpinning a well-functioning city is proportionality enabled by justice, which he describes as the virtue most necessary to society[2] and the one that renders possible all other virtues. Justice safeguards democracy and peace and holds in check vices like avarice, fraud and deceit.

This premise remains unchanged today. We prefer to use the term ‘responsibility’ or ‘ethics’, rather than ‘virtue’, but nonetheless, this represents the same idea and encapsulates key characteristics for a well-functioning society, such as trust and justice. If we analyse each of these traits, we realize that none of them is possible without other underlying values. For example, trust is made possible by honesty and transparency, and justice by sympathy, temperance and self-restraint. Law alone cannot guarantee the realization of justice. A regard for other people is vital, and this leads to responsible action. The Greeks referred to this holistic approach to wellbeing for the *polis* as simply ‘virtue’, and this is why I choose to use this term throughout the book. Virtue is a foundation for a well-functioning society and economy, because it governs beneficial human behaviour and makes possible a harmonious outcome.

The Market: A Place of Beneficial Exchange

The market is where the exchange of goods and services occurs. Aristotle believes fairness or proportionality of exchange to be vital in markets. In the *Nichomachean Ethics* he discusses the proper ratio for exchanging property, a ratio that is just and required for harmony, the ideal for the Greek *polis.* Such behaviour is governed by virtue: "that city is happiest which is the best and acts best, for no one can do well who acts not well".[3] A person possessing virtue knows what action is appropriate or just. Aristotle believes this condition stems from *philia* (friendship) and ensures *eudaimonia* (happiness or human flourishing). It remains true today that reciprocity, or mutual assistance founded on friendship and collaboration, helps ensure a beneficial market and proportional exchange that builds community.

Proportional exchange need not be fully equal, but it must be seen to be appropriate, to be just.[4] Aristotle writes of "good morals and a system of equal laws"[5] in this regard. Most of us have witnessed social conflict that arises when one party feels abused and believes that he is not getting his proper due. This can lead to anger and violence, causing conflict and jeopardizing harmony. In *The Politics*, Aristotle writes about the risk of revolution and sedition arising from injustice. Excessive encroachment, due to greed, goes against the principle of proportionality and is seen as an affront to justice. Aristotle and his teacher, Plato, presented greed as a social rather than an individual problem. Greed is a major problem in our society today. It can be motivated by a fear of shortage in the future, leading to hoarding. It can stem from avarice, the desire to consume more, or pride, the desire to appear better off than one really is. Thomas Aquinas, who reinterprets Aristotle within Christian thinking, likewise sees legitimacy in any exchange designed to meet a need, but condemns avarice: "the desire for gain, which knows no bounds but spreads always further".[6]

The contemporary economists Luigino Bruni and Robert Sugden write that if the market is to be beneficial, it must maintain relations of mutual assistance (friendship) and distribution of gains must not deviate too far from standards of fairness (justice).[7] In a beneficial market, each agent is free to determine what contract to enter into and each is symmetrically positioned with respect to a mutually useful relationship, in contrast to an asymmetric relationship of advantaged and disadvantaged.[8] Thus, they argue that markets can support liberty (freedom to enter into a contract) and equality (symmetric relationships), as well as virtuous behaviour (fair and beneficial exchange). Markets function best when they are underpinned by trust in a fair exchange, where each transaction provides benefits to everyone who is a party to it. Although individuals act in their own interest, mutual benefit results.

Money: the Life-Blood of Society

In the marketplace, barter initially served as the method of exchange. Goods and services were traded for other goods and services. But due to unequal value in what was exchanged, barter was found to be inadequate and cumbersome. Money was then established as a unit of exchange to facilitate trade. The textbook definition of money is "a medium of exchange, means of unilateral payment or settlement, measure of value or unit of account and store of value".[9] A historian whose analysis of capitalism is highly regarded, Fernand Braudel, writes that "money is a very old invention... without exchange, there is no society".[10] Likewise, Geoffrey Ingham refers to it as "one of our essential social technologies... a foundation of the world's first large-scale societies in the ancient Near East during the 3rd millennium BCE". In use for thousands of years, money has permitted trade to flourish and societies to develop, by facilitating the supply of necessary goods via exchange and thus allowing for improving standards of living.

Since money is able to store value as pure purchasing power, it allows for transactional flexibility. Ingham discusses how money allows transactions to be deferred, revised, reactivated or cancelled. Money has no time limit, no expiration date. In a market of exchange, the seller of a good need not accept another good in immediate return. With the money received, he can purchase another good in another market or at a later date. Money thus allows economic action to cover extensive territories and to be carried over from the past or projected into the future. John Kenneth Galbraith writes that most things are important only to those who have them, but money is important to all.[11] It is the unit through which the exchange of material things passes and it facilitates our welfare.

In medieval times, Franciscan monks were the first to compare money to blood in the body,[12] and in the 18th century François Quesnay, the economist and physician to Louis XV, extended this analysis. The economist John Maynard Keynes himself describes money as the "life-blood of industry".[13] And we can see money as the life-blood of society, since it brings the 'life force' to different parts of the economy. Just as an orderly flow of blood through the body ensures health, so does the way money flows within society determine its welfare. Without the flow of blood, the body dies; likewise, the economy atrophies without the flow of money. And just as blood can bring nutrients, it can also bring toxins. Thus, the health of the economy is governed by the beneficial flow of money.

Debates on the nature of money are as old as their subject. Galbraith questions whether the economy begins with production or with money creation and whether money influences the economy or responds to the economy. Aristotle would have said that the economy begins with production and money facilitates exchange. David Hume and classical economists referred to money as neutral, and Friedrich Hayek introduced the term 'neutral veil' to describe money.[14] These economists saw money as providing a neutral framework to permit economic activity. They believed that money does not itself determine outcome or create new value, but rather the use of money does. Hence, they saw any change in the stock of money as not affecting the underlying real variables, such as production, employment and consumption, but simply influencing price and wage levels. Ludwig von Mises, a friend of Hayek's, believed that money is never neutral. He postulated that it is a market phenomenon, demanded for its usefulness in buying goods and that credit expansion by banks causes business cycles, booms and bust.[15]

Keynes inverted the theory that money is neutral by introducing the monetary circuit or productive theory of money in his *Treatise on Money*: money as a creator of wealth. He argued that through central banking activity and bank lending, the creation of money is a starting point for economic activity and wealth creation. Thus, money is not neutral. Banks create money through a "monopoly of magic",[16] and the firm negotiates a loan and invests in productive activity, with people supplying labour. The financialization[17] of the economy has brought us one step beyond Keynes's vision. Our economy today is not defined by the creation of money simply for investment in productive assets and job-creation, but by the creation of money to a large extent for consumption and paper investment. In our current economic and financial paradigm, money is definitely seen to lead the economy.

Banking and Credit: Money Creation

Initially using commodities like beads and gold and then metal coins, money subsequently took on the form of paper or *fiat* money, backed by the promise to pay. This allowed for the development of banking. Laurence Fontaine notes that the word 'credit' stems from the Latin *credo* – 'I believe' – which is linked to *fides,* faith or confidence.[18] Hence, credit is founded on confidence that the money lent will be returned. In the English language, linked to the role of banking is the word 'fiduciary', the definition of which is "a person legally appointed and authorized to hold assets in trust for another person. The fiduciary manages the assets for the benefit of the other person rather than his or her own profit."[19] Within the banking system, the fiduciary is an agent, working for the client on the basis of trust. Trust is equally expected of the borrower. As originally conceived, credit is not a given. It has to be justified through confidence. As part of the money system, credit has to be properly guarded because, if it is abused, access to it can be lost. Indeed trust was intended to be the foundation for banking and credit, a fiduciary responsibility often forgotten today.

Within the Western world, banking originated in Italy. The creation of letters of credit[20] permitted the flourishing of trade in the 13th century in Genoa and was extended in the 14th century to Venice, where Rialto Square was the heart of all exchange. Development of the *commenda,* a rudimentary type of joint stock, issued separately for each trade mission and allowing those who financed the trade to participate in the profits, expanded trade further.[21] By 1500, the Arsenal in Venice comprised the largest industrial complex in the world. It was capable of building, arming, provisioning and launching eighty galleys at a speed and level of consistency unmatched by any rival.[22] This was the original germination of finance and globalization. A complex commercial society was made possible by credit and trade.

Franciscan monks were important to the development of finance in Italy, for within the order were merchant lay members who understood its role. In Venice in the late 15th century, Friar Luca Pacioli published the *Review of Arithmetic, Geometry, Ratio and Proportion,* adapted from mathematics developed in the Muslim world. He included the first printed treatise on book-keeping in the West, thus providing the foundation for modern accounting. Pacioli also devised company shares as a way to diversify risk, and to permit the raising of capital for trade and commerce and of public debt for government spending.[23] Importantly, amidst expanding economic activity, Franciscans reinforced the concept of the *common good* as the final objective of the economy. This is in line with the Aristotelian concept of flourishing in the *polis.*

In the medieval world, credit helped to tide over the less fortunate in difficult times, such as periods of exceptionally high expenses. Peasants had to resort to credit when crops were poor, to pay duties and to finance major family events such as marriage or death.[24] Since at that time borrowing arose mainly from hardship and heavy debt service entrapped many in poverty, interest was considered usury.[25] In response to the needs of the poor, Franciscan monks established the first *monte di pietà*, a form of credit institution, in Perugia in 1462.[26] The loans provided by the *montes* were funded by donations and did not bear interest. Later they were pledged by the borrowers' goods, as in pawning.

The argument for making loans rather than offering charity was that it allowed for the preservation of dignity, which begging did not. Moreover, it provided the opportunity for economic improvement when credit was used for agricultural or commercial purposes. Half a millennium later, Muhammad Yunus was similarly inspired to start Grameen Bank, so as to make credit available to the poor in Bangladesh at non-usurious rates.[27] He founded the bank with his own limited funds as established banks had refused any loan, on the grounds that the poor have 'no credit history'.

Montes proliferated and by the 16th century were no longer exclusively concerned with helping the poor. The further development of trade and commerce necessitated credit. Thomas Aquinas had unblocked the impediment to credit development that arose from the prohibition of interest or usury in the 13th century. He allowed for interest to be charged in commercial transactions via the *commenda*, provided the owner of the capital shared in the risk.[28] This was in line with the advocacy of economic freedom by the Scholastics, the academics of medieval universities in Europe who included Aquinas.[29] Banking expanded with the Medicis, who used the *montes* to finance trade and foreign politics, including war, during the Renaissance.

Banking was given further impetus by the monetary needs of war across Europe.[30] In the late 17th century when William of Orange sought funds to fight Louis XIV, William Patterson of Scotland suggested forming a banking company under royal charter. The full subscription of capital by the public was subsequently lent to William of Orange in the form of a note issue, which was backed by government guarantee. The Bank of England was thus created in 1694, firstly as a private bank and then subordinated to the Treasury in setting policy in 1931 and nationalized in 1946. In a similar vein, raising the capital needed to satisfy Napoleon's desire for conquest led to the foundation in 1800 of the Banque de France. In Germany in 1875, shortly after the establishment of the German Empire, the former Bank of Prussia became the Reichsbank, a precursor to the Central Bank, established in 1948.

Other than banks set up by states, private financial institutions were founded in order to make loans, thus facilitating the creation of money. In the early days of banking, monetary notes were backed by gold or other commodities. With the expansion of money, at different points in history, notes no longer had to be guaranteed by physical assets. Money was then created via a simple accounting entry, a 'promise to pay'.

The Bank of England's *Quarterly Bulletin* 2014 Q1[31] points to a common misconception that banks act simply as intermediaries, lending out deposits previously placed by savers. In fact, money is created by commercial banks making loans, which result in new bank deposits, the main form of money today.[32] Theoretically, banks are restricted in money creation through competition (governing profitable lending), prudential regulation and practice (such as that governing capital and reserves) and consumer action (households can *destroy* money by paying back loans). Management of risk, both credit and liquidity, should in theory constrain the banking system in money creation.[33] Monetary policy acts as the ultimate influence through interest rate policy (setting the price of reserves) in normal times and through quantitative easing (QE) under exceptional circumstances.[34] QE boosts the amount of money in circulation through the purchase of financial assets by the Central Bank, thus adding to the amount of bank deposits held by the seller of assets, the investor.

Easy money and lax controls can give rise to speculative bubbles and subsequent collapse and restructuring, of which there are many examples in history.[35] One such is the bubble arising from speculation in copper and leading to the collapse of the Knickerbocker Trust Bank of New York in 1907. This development led to calls for the creation of an agency that could ensure stability through proper supervision and policy and provide liquidity as the 'lender of last resort', thus helping prevent another crisis. Consequently, the Federal Reserve Act was passed in 1913 and the Federal Reserve Bank formed the following year. The US Congress established three key objectives for monetary policy in the Federal Reserve Act: maximum employment, stable prices and moderate long-term interest rates. It equipped the Federal Reserve Bank with two tools to prevent or moderate panic: the supervision and regulation of banks and the power to make loans to banks.[36]

The history of money is a long one and it is filled with stories of excess and collapse.[37] It is not my purpose here to examine it extensively but to discuss briefly the original concept of the economy and evolution of money, in order to understand the economic and financial framework and the role money plays. However, we can see that the original objective of both was to serve society by providing for economic welfare and advance and that confidence is an indispensable foundation of banking and finance. When trust is abused or squandered or when money is used in a destructive way, crisis follows. In recent times, we have witnessed the damage wrought by the abuse of money and a major breakdown of trust. So we see that banking and finance can be both creative and destructive.

Expanding Liberty and Prosperity

As well as enabling welfare by fulfilling our material needs, money – by allowing for the purchase of property – began increasingly to be seen as permitting liberty. Along with other liberal philosophers, John Locke (1632-1704) associates the owning of property with liberty: being "free from restraint and violence from others… [able] to dispose, and order, as he lists, his Person, Actions, Possessions, and his whole Property".[38] Locke justifies property rationally and ethically from the fundamental natural law of self-preservation, but he sees property also as a foundation for a social contract, to guard against "trespass against the whole Species". He sees property as giving continuity to a political society, joining generation to generation. For him, property acquisition cannot be unlimited, as it is "confined originally to what a man or his family could consume or use, and must not be wasted". In this respect, his view is similar to Aristotle's idea of an economic boundary and his ideal of proportionality.

Locke's theory of freedom is not simply absence of restraint; it is positive, for it is enlarged by the creation of society and government and laws. Government is of institution, of law. He writes that law makes humans free in the political arena, just as reason makes humans free in the universe. Locke maintains the right to revolt if the law is not upheld. Trust and contract are two pillars guaranteeing property and cohesive freedom within civil society. He calls for all to be "trusted with the means of maintaining the humanity of all *Community"*. Citizenship implies formation of a 'living body' out of separate selves. For Locke, natural political virtue arises primarily because of symmetry; each possesses virtue that is other-regarding. There is a mutual consideration that involves all and that ensures the smooth functioning of society. Citizenship is a specific duty in a world where every individual either recognizes his responsibility for every other or disobeys his conscience. Freedom is accompanied by beneficial restraint. There is, therefore, an ethical element in Locke's theory as well as a principle of communal unity, accompanying the ideal of liberty.

Thomas Hobbes (1588-1679) by contrast defines liberty as "the absence of… external Impediments of motion"[39] to pursue self-interest, power and personal property. Hobbes lived through violent times including the Civil War in England, which helped him form a pessimistic view of humankind. In his book, *Leviathan,* which was written in the closing period of the war, Hobbes proposes a social contract, whereby one would voluntarily limit one's freedom of action and subject it to the state and to law, in order to gain protection from the greatest evil, that of violence. His view is based on fear and is defensive, while Locke's is based on hope and is expansive. One is built on a negative view of humans as violent and fearful, and the other on a positive view of humans as possessing conscience and being worthy of trust and capable of unity. In fact, Locke directed his *Two Treatises* against Hobbes,[40] whom he refused to meet. Both lived at a time when property or wealth became increasingly seen as a pre-condition of liberty. Today we continue to use this argument to justify the owning of property, and hence wealth, but we tend towards Hobbes's view of the human being, rather than Locke's. The latter's foundational treatment of trust and stewardship in property rights is not referred to as often as Hobbes's perspective of fear and the need for protection from violence and loss.

In the 18th century, the pursuit of liberty continued. The beginnings of Modernity and flowering of the Enlightenment saw a period of exciting intellectual ferment, political change and scientific progress. Economic acceleration accompanied great societal transformation. Cities swallowed village markets, with commerce replacing feudalism as the organizing force in society.[41] During this period, the wealth of the aristocracy was gradually supplanted by the new wealth of commercial agents. The market's importance as a place of trade and wealth-creation advanced. In this context, a new economic vision appeared that spoke to the needs of its time and that continues to underpin the economic theory of markets today. It arose from a critique by Adam Smith (1723-1790) of mercantilism, the prevailing theory of the time, which held that the world's wealth was fixed, with trade a zero-sum game.[42] High tariffs and restrictions on trade were the order of the day, in order to protect the wealth of those who had it and many wars were fought in Europe to defend special interests. Such strict controls over the economy were seen by Smith to limit freedom and not benefit the people, but rather to favour established merchants via state-sanctioned monopolies, and to benefit the state via taxes.

Adam Smith proposes in *The Wealth of Nations* a new economic synthesis, appealing to a world clamouring for liberty and equality and a chance to participate in prosperity. Smith writes: "It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest.

We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages. Nobody but a beggar chooses to depend chiefly upon the benevolence of his fellow-citizens."[43] He proposes beneficial competition, motivated not by benevolence but by self-interest, resulting in contribution to the public good via an 'invisible hand': "[the merchant] intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention". Smith thus argues that each agent pursuing his self-interest contributes to the welfare of all. Not only did his vision permit material advancement, but also human progress, for it allowed men to cease being beggars and become free agents. The quest for liberty and the right to prosperity are very important considerations in explaining Smith's vision and its widespread adoption and underpin the important role it continues to play in the liberal order today.

Within the context of societal change, this was a powerful message, promising independence and a world of abundance. In 1776, the year Smith's book first appeared, the United States of America was founded, with Thomas Jefferson highlighting in the Declaration of Independence the "inalienable rights of life, liberty and the pursuit of happiness". Just over a decade later in 1789, the French Revolution was to proclaim "liberty, equality and fraternity". This was the *zeitgeist* or spirit of the times – liberty and equality – and Smith's economic model supported this vision. Without liberty and equality, all could not share in prosperity. Without prosperity, happiness is more difficult to attain.

Although in our days fraternity is less often associated with Adam Smith than are self-interest and competition, it is important to review his objectives. In line with Aristotle, Smith's vision is for the public good, via prosperity for all. For him, trade serves as a foundation for social harmony and the expansion of wealth.[44] He thought that the more privileged strata of society had a duty to ensure that everyone benefited from wealth expansion. His was a manifestation of fraternity, of sympathy or concern for the other, with a belief that this was essential for the common good. We also saw earlier the importance that Locke placed on regard for the other. This regard is governed by *conscience* in the case of Locke and by *self-command* in the case of Smith.[45]

The economist Mark Skousen notes that Adam Smith's classical self-regulating model leads to a natural harmony of interests through the invisible hand and involves three characteristics: freedom, competition and justice.[46] While the first two stem from self-interest, we can see that justice, which was also an important feature of commercial exchange for Aristotle, implies 'self-command'. Skousen highlights two hypotheses in Smith's synthesis: 1) a system of natural liberty leads to a higher standard of living, and 2) economic liberalism benefits rich and poor alike. Smith's approach has been adopted by neo-classicists and liberals in recent times to defend unfettered markets with quite different results, as income disparity widens. As a result, the assumption of 'trickle-down economics' via the invisible hand has been shown to be mistaken. Joseph Stiglitz explains that in our current economic system this has occurred because of a violation of fairness, or justice.[47] This is a key feature in Smith's self-regulating model, as underlined above. In liberal economics, the focus is on liberty, but justice or proportionality is ignored. Without justice, there is no self-regulation or self-command – both implicit in Smith's approach – and the invisible hand is rendered ineffective.

Adam Smith was firstly a moral philosopher. Seventeen years before *The Wealth of Nations*, he wrote *The Theory of Moral Sentiments*. The philosophical framework within which Smith lived and worked was that of moral sentiments, involving sympathy and incorporating propriety, justice, merit and duty.[48] It was an ethical framework with virtue playing an important part. He saw no conflict between self-interest and sympathy as self-interest was tempered by self-command; greed was restrained. Smith lived a modest life. His economic model was based on thrift and hard work and self-interest for him was enlightened; the key word is 'enlightened'. This implies wisdom, an understanding of the consequences of one's action and its ramifications for the society with which one is concerned. This requires self-command, which is expressed through virtue, in considering the consequences of one's actions. In this regard, Smith's thinking is similar to that of Aristotle and Locke. We have forgotten self-command in our current understanding of self-interest and the invisible hand.

Investing in the Future

From early times investment has been recognized as enabling economic development and the creation of wealth, and many economists have written about this. Adam Smith distinguished between 'circulating capital', used in trade to exchange one good for another and permitting immediate consumption, and 'fixed capital' used to generate an enhanced revenue or profit in future via an improvement in output. This occurs by the purchase of useful machines and instruments of trade, profitable buildings, the improvements of land, and education or apprenticeship.[49] For Smith, fixed capital is derived from and supported by circulating capital and obtained by deductions from the revenue of society, i.e. by saving.

Smith sees prodigality as hurtful as it increases the expense to society, because wasteful consumption impacts negatively on the establishment of a permanent fund for supporting investment. The 'permanent fund' enables investment which promotes industry and increases the amount of consumption by society over time. In his discussion, Smith refers to 'seed' as fixed capital, for "the farmer makes his profit not by its sale, but by its increase". Thus, investment is using saved funds to increase future revenues, just as planting of seeds causes crops to grow.

Our current view of money is quite different from that held in Smith's days. As Keynes writes, money can be created like "magic"[50] by banks booking loans. We focus today on consumption and financial trading rather than investment for the long term. Adam Smith's view of frugality is seen as outdated and rendered unnecessary by money creation via central banking and commercial banking activities, but the design of investment to enhance future welfare remains crucial and wastage of resources is equally pertinent today, especially in an environmentally challenged world.

Another economist, Jean-Baptiste Say (1767-1832), depicted the benefits of savings for economic growth.[51] He also saw saving as a stimulus to wealth creation, because it is used in the production of capital goods, allowing for new processes leading to higher future revenue for society. It is investment in the future. Say's prognosis was borne out in the Industrial Revolution, which saw a substantial increase in the amount of capital required to enable factories and railways to be built. Investment led to mass production and distribution in the 19th century. With the supply of necessities increasing dramatically, a substantial decrease in prices occurred, resulting in a deflationary boom. Today, we link deflation with depression, and we cannot envisage deflation in prices and a boom in production and employment occurring simultaneously. But this was not always so.[52]

John Maynard Keynes, in his chapter on investment in *The General Theory of Employment, Interest and Money*, highlights the importance of confidence in order to induce investment. He differentiates between the "serious-minded" investors looking at the long term and the "game players" or speculators, among whom he himself actually figured. In the 1930s following the crash, he writes that "investment based on genuine long-term expectation is so difficult today as to be scarcely practicable" and that "there is no clear evidence from experience that the investment policy which is socially advantageous coincides with that which is most profitable".[53] He notes that investors who focus on long-term fundamentals, while everyone else is engaged in short-term strategies, run greater risks.[54]

Keynes writes, however, that this speculative approach to investment would eventually fall away as wealth is built. From his 1930 essay we learn: "The love of money is detestable... We shall once more value ends above means and prefer the good to the useful."[55] He envisages a rather Utopian future of easy abundance with the benefit of money found in a joyful "art for living". We have still to wait for Keynes's prophecy to be fulfilled.[56] What does it entail for us? Is such a future indeed possible? Do we desire it? If so, how can we help construct it?

Restating the Human Purpose

Economic outcome is determined by human action and reaction. For this reason, Aristotle and other philosophers have been concerned with the way that human motivation influences economic outcome. Aristotle highlights the importance of the proportionality of exchange in markets, possible only through justice, the prevailing virtue. Locke stresses the importance of trust and stewardship in the development of property rights. For Smith, the self-regulating market is dependent not only on self-interest, but also self-command. Thus, we see the importance of virtue, or the ethics underlying economic activity.

For a well-functioning society, harmony is indispensable. Social harmony cannot be attained without wellbeing, possible only if the economy functions for the common good, with concern for the human being who is at the centre of economic activity. This entails reciprocity or friendship, and it implies that each economic agent has to do his part to contribute to the common purpose. This is not feasible without the practice of virtue which protects human dignity and contributes to prosperity for all. Individual action alone is insufficient; everyone must act in unison, each playing his part before a system of equal laws, of symmetry. Only thus can we arrive at not only equality and liberty, but fraternity and happiness, central human aspirations and key ideas contained in the American Declaration of Independence (1776), the rallying cry of the French Revolution (1789) and the Universal Declaration of Human Rights (1948). Only in this way can the invisible hand result and can we truly arrive at the ideal of economic prosperity espoused by Adam Smith.