

Dear bank, relearn which is your trade

Published in the weekly Vita, February 27, 2009

The continuation of Luigino Bruni's dictionary: a guide to rereading the key words of economic behavior, after breaking down the myths and bursting a few bubbles. The words already analyzed are: Happiness, Profit and Market. Now he takes a look at Bank.

Economy was born with man. Even prehistoric economic problems were presented every time there were scarce resources. And with economy began savings, renunciation to a present consumption for a future one.

The bank, instead, was an invention all in all recent, going back to the Middle Ages, even if the activity of depositing and loaning existed since ancient times. Saving and banks are, in fact, two logically and historically distinct and autonomous concepts. One can save even without a bank, as we've especially learned from J. Keynes.

The bank arises with the development of markets, when the demand for money increases on the part of merchants who had entrepreneurial projects but not the necessary financial resources. In those early banks, there was a clear distinction between loaning for investment (or to markets) and loaning for family consumption. While from Humanism onward no one seriously doubted that loaning to entrepreneurs should be accompanied by interest tax, many instead denied that interest should be paid also in the case of a family consumption loan.

Why? The reason is simple: when one lends to an entrepreneur, that loan in itself has the premise of future fruits. Instead, when one makes a loan for the consumption of basic necessities, that consumption "destroys" wealth - it isn't fruitful. That's why the only interest charged by the Mounts of Piety to needy families was, in fact, a contribution to the costs for running the bank. In present terms, those banks were non-profit institutions.

But if we look well at the nature of the bank, without straining ourselves too much, we could arrive at the affirmation that it's normal nature shouldn't be searching for profit, by the simple fact that it administers and risks resources that are not its own. The bank is, by nature, a civil enterprise whose goal is much bigger than profit. That is why a banking sector which generates high profits denounces a pathology. The current crisis, in fact, is telling us two fundamental things. The first is that the system of incentives and rewards is wrong: the financial market has compensated too many people who assumed high risks (with other people's money). Secondly, we have seen too much indifference to the transformation process of banks from civil institutions to speculative ones. The bank is too important to be left in the hands of profit seekers.

A re-civilization of the banking system is needed to re-launch the entire social pact that keeps our complex societies together. Next week, Luigino Bruni will face the word "Interest".