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What the Economic Crisis Teaches Us

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"Even apart from the instability due to speculation, there is the instability due to the characteristic of human nature that a large proportion of our positive activities depend on spontaneous optimism rather than on a mathematical expectation ... [our activities] can only be taken as a result of 'animal spirits'...."
(J. M. Keynes. *General Theory*, 1936)[2]

They had gone almost half way when the Fox, halting suddenly, said to the puppet:
"Would you like to double your money?"
"In what way?"
"Would you like to make out of your five miserable sovereigns, a hundred, a thousand, two thousand?"
"I should think so! but in what way?"
"The way is easy enough. Instead of returning home you must go with us."
"And where do you wish to take me?"
"To the land of the Owls."
(Collodi, Carlo. *The Adventures of Pinocchio*. ch. XII)[3]

Abstract: *The present economic crisis shows how the dominant morality in this field, based on love of money and the idea that the common good is the product of individual greed, is not working and must be totally rethought. If we are not willing to face unsustainable crises over the long term, "monetary capitalism" needs a new global pact to design a third generation capitalist structure. Agreements must be drawn up that are democratic, inspired by civil society, and that give serious consideration to the African, Asian and Latin American points of view. Behind this crisis lies a moral one that has to do with our lifestyles. Taking on debt in order to consume has become for many a kind of drug. On the other hand, those who have made ethical investments, or created Economy of Communion businesses with prudent management, now have more stable and healthy companies. Despite its serious nature, the crisis could be an opportunity for a new debate on the sustainability of the capitalism we have created and could provide the cultural context in which other economic ideas and methods of finance, until recently regarded as marginal and a bit naïve, can develop and change the nature of the market economy.*

The desire to possess money and to accumulate wealth is a strong passion in human beings, analogous to the sexual drive and to the desire for fame or power. For this reason civilizations have always thought that such passions require education and social institutions to regulate them, and, just perhaps, to transform and reorient these deep passions into some sort of common good.

Pre-modern Western ethics, for example, regarded the love of money with great attention and preoccupation, counting greed among the capital vices. The greedy person was seen as an enemy of the community; in making money an end in itself rather than a means to satisfy one's own needs, s/he impeded the circulation of wealth and thus the generation of the common good. The merchant, on the other hand, was normally seen as a contributor to civic life, since by causing money to circulate s/he prevented wealth from stalling and stagnating, keeping it moving among the various segments of society. Thus money was not condemned in and of itself by ancient cultures, only when it was transformed from a means into an end.

1 Translation by N. Michael Brennen, <michael@michaelbrennen.com>, revised August 2009; any errors in translation are my own.
2 <http://www.marxists.org/reference/subject/economics/keynes/general-theory/>
3 <http://books.google.com/books?id=vu2RDxwR528C&printsec=frontcover>

For example, Aristotle's criticism of "chrematistics" (the art of wealth creation) was directed solely toward unnatural chrematistics, that is, when wealth becomes an end in itself and the satisfaction of people's needs is but a means to achieve that end. When the economic activities of production and exchange (as means) are carried out to satisfy needs (as end), per Aristotle we are within the natural and positive vocation of wealth. When instead we exchange and produce with the aim of enriching ourselves, in Aristotle's view this is a matter of outright illness that no longer leads to a good and happy life. In other words, in ancient thought (which Christianity has in large measure taken as its own) there is no good life, either individual or civil, without wealth, income, exchange and commerce, but the economy becomes ill when it reverses means and end.

In modernity there has been a progressive shift in attitude regarding the quest for wealth and profit. Greed (understood as the quest for money) has been transformed from a vice into a near virtue, as the idea of the common good has changed. The common good is now associated with self-interest rather than virtue; satisfying one's passions and self-interests, without anyone either so wanting or knowing, indirectly produces the common good (the well-known metaphor of the "invisible hand" of Adam Smith states exactly this.)

The whole debate on economic ethics in the last two centuries has centered around the conviction that the individual quest for money and profit bears good fruit and thus should be encouraged for civil society, not just for enterprise. The only constraints are those imposed by laws and institutions, but within those constraints the love of money has been considered perhaps the most important civic virtue of modernity, for the indirect good that it brings.

The current economic crisis demonstrates that this economic ethic founded on the love of money and on the common good as an outgrowth of individual greed does not work and must be profoundly reconsidered. Above all we must reflect, much more seriously than at present, on the nature of the monetary capitalism that we have created over the last century. The present financial crisis shows above all else the radical fragility and vulnerability of monetary capitalism. In the traditional market economies (from medieval cities to modern Europe) a crisis such as the one we are living through was not even thinkable. In those economies consumption was well founded upon and tightly tied to real production. The income of individuals and of countries was an important indicator of wealth because it stated clearly and without equivocation just how much a family or a country could spend and invest. Income actually produced was the natural limit of consumption and of savings. Income not spent was deposited in banks (when they existed and were safe) where, thanks to interest earned, the value of saved wealth did not deteriorate over time. In that world of "early" capitalism, which lasted until the early 20th century, economic crises could happen only by a crisis in the real economy [of goods and services], primarily by the failure of companies, causing unemployment and resulting in a reduction of consumption and production, and thus of income.

This traditional economic system went into crisis in the first half of the 20th century with the emergence of monetary capitalism, which has radically changed the nature of the economic system and of our lives as well. The financial system had already come about in the 17th century with the creation of the first stock markets and the first central banks; the latter however until the 1900s had exercised a subsidiary role to the real economy, which remained at the helm of the market and of economic and civil growth. A hundred years ago or so, primarily in the Anglo-Saxon countries, the center of gravity of capitalism moved from the real economy to the financial economy. The banks on the one hand and public and private credit instruments on the other occupied a slowly increasing share of the Western economic system, displacing goods and services.

This alteration in the nature of capitalism produced several interesting outcomes, among them an expansion of consumption that led to the boom in economic well-being in the West. However, all that came about at a very high price, as the economic system became extremely unstable. The great English economist John M. Keynes was the one more than anyone else that understood and prophetically (already in the Thirties) spoke out against the fact that the capitalistic economy was maturing radically thanks to the advent of finance, a change that would result in a structural fragility of our economic and social system. The new element that entered the scene, according to Keynes, was the central role of psychology and of the "animal spirits" of people, rendering the entire economy profoundly unstable because it was at the mercy of the often irrational moods of economic agents (entrepreneurs, investors, families, etc.)

Crises like the one we are living through are thus the rule rather than the exception of monetary capitalism, above all today when globalization amplifies the effects of crises, and the new generation of finance creates instruments ever more sophisticated and distant from the real economy [of goods and services] and real income. This instability and fragility are but the obverse of a model of development that permits one hundred dollars of real income to become a thousand dollars or more, with almost no relationship between that money and human labor.

Must we become accustomed to crises like this, and to others even more devastating? I fear yes, at least until the present capitalist system evolves into something different. In the short term, however, it should be imperative to reopen a serious reflection on the new capitalism, which is not only economic and financial but political and cultural in scope as well, a global and worldwide reflection that remains firmly based on the postwar Bretton Woods agreements. Keynes, who was among the promoters of these agreements, was convinced that, given the new nature of capitalism, a new "social pact", new regulations and new economic and political institutions were needed to manage this new reality. The International Monetary Fund and the World Bank are the result of these agreements, though very partially implementing and partially betraying their intent.

At the end of the 1990s the global civil conscience was maturing in the conviction that capitalism would require a different and more attentive oversight. The so-called "Tobin tax"[4], and the debate around it regarding the new architecture of monetary capitalism and the regulation of [capital] flows and financial instruments, acted as a catalyst of a process that started at the grass roots level and that culminated (between the ups and downs) in the G8 Summit in Genova in July 2001. Then September 11 distracted the attention of the international community from the new architecture of monetary capitalism and toward the themes of security and terrorism. Today we are aware that during the last eight years of "distraction" the process exploded, and we are unexpectedly becoming aware that there was another "war" and another "security" no less grave and urgent than passenger checks at airports, problems which menacingly burden every family on the planet.

This current crisis is dramatically telling us that monetary capitalism requires a new agreement or a new global treaty that is much more than a "new Bretton Woods", a treaty that designs a new third generation architecture of capitalism, if we desire that these crises not become truly unsustainable in the long run. We can only hope that these new agreements are democratic this time, that they originate at the grass roots of society, and that they seriously consider the points of view of Africa, Asia, and Latin America.

4 A tax on currency transactions; see also "Tobin Tax Principles" <http://www.justiceplus.org/tobin_tax.htm>.

Behind this crisis, moreover, there is also a moral crisis regarding our relationship to goods and lifestyles. Accumulating debt (in the United States, and increasingly throughout the opulent world) well beyond any realistic possibility of one's income is a form of doping similar to that to which gamblers are prey. Taking on debt for consumption is a high risk action. While indebtedness for an investment is healthy and natural, as an action based on the hypothesis that if an investment is good the increase in value will more than repay the interest on a bank loan, indebtedness for exotic vacations or luxurious houses can be an action similar to that of Pinocchio who, following the advice of the Cat and the Fox, sowed money in the hopes of seeing it multiply in the future on the trees of the "Land of the Owls". Obviously I do not wish to deny that within certain limits credit for consumption can be healthy for the economy and for the common good. But it is even more true that a bank that lends too much to the wrong persons (i.e. those who cannot repay) is no less acting against society than a bank that lends too little to the right persons (i.e. entrepreneurs with good ideas.) If bankers and financial consultants behave as new Cats and Foxes, everyone, in difference with the fables, will ultimately live "unhappily and discontentedly", as the wise Cricket well knew in saying, "Don't trust to those who promise to make you rich in a day. Usually they are either mad or rogues! Give ear to me, and go back, my boy." (*The Adventures of Pinocchio*, ch. XIII).

One final consideration. There is an important aspect of this crisis that is not sufficiently highlighted in the debates. Anyone who has made ethical investments during these years (in an ethical or a co-operative bank, for example) finds him- or herself today with a result at once ethical, economically advantageous and very safe. Those who have started companies in the Economy of Communion[5] with prudent and sound management, without hearkening to the sirens of easy wealth or of high financial returns, today have companies that are more sound and robust. This crisis in fact is bringing into discussion the system of incentives and is changing the values in play, even purely economic ones. As has happened many times in history, a shock (e.g. climactic) can lead to the extinction of a species (such as the very large mammals) and favor the development of smaller and more agile organisms that appeared to be disadvantaged in the previous climate. This crisis, despite its gravity and the great distress it is causing for many, could become an opportunity were it to open a debate on the sustainability of the capitalism we have created. Furthermore, it could create the cultural conditions such that alternate economies and financial systems, which just a few years ago were seen and considered as niche proposals and as just a little naïve, can develop and change the nature of the market economy. Humanity has known economics (*oikos nomos*) since the appearance of *homo sapiens* (and perhaps previously), and the economic systems that have cycled through the history of civilization have been many, from hunting to agriculture, from the feudal economy to the market economy. Men and women, with their culture, their choices and values, have oriented the economic systems that endured until the culture, which is ever evolving, came into conflict with the economic system. As an example, consider the great transition from feudalism to the market economy, an epochal change that came about when the new values of liberty and equality caused a world founded on other values (i.e. hierarchy and inequality) to implode, which modern man wanted to surpass.

Economic systems change when the culture of men and women becomes more complex than the economy, when that which is essentially human surpasses that which is merely economic. It is my strong impression that in our time we are watching something similar. The individual that has emerged from the economic, industrial and cultural revolution of modernity is becoming aware that an economy and a market founded on individual interests and the quest for profit, that "consumes"

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5 http://www.edc-online.org/

community, relational goods and environmental goods, is giving rise to bleak habitats that are ill-suited to the human social animal. Once again it will be people's thirst for life and desire for happiness that will find solutions to this crisis and to this form of capitalism. But the "human" result that will emerge from this will depend on all of us and on each one of us, and on the social, political and economic aspects of civilization. Today the outcome is completely uncertain; it could be progressive or regressive, but in any case we will all collectively be the protagonists of the history that awaits us.