Finance, the broad picture and the big questions
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Finance is often regarded with diffidence, a subject for bankers and rich people, the cause of crisis and poverty, a collection of mathematical formula and technical language difficult to understand. A few realise that the welfare we enjoy is largely due to finance.

In essence, finance deals with the study of investments, the management and the creation of money, shares, bonds and other financial instruments. The origin of finance dates back to the first banking practices of Babilonia and reached an organised structure with the banks of the Italian renaissance. The first stock exchange was in Amsterdam in 1602 and eventually during the 1980s finance became a very large part of the world economy[1]. The expansion of the financial markets happened after the removal of the gold standard in 1971 (the connection between value of money and gold[2]) and the use of “fiat money”, money whose value is decided by a government or by exchanges but without intrinsic value.

Right now governments, companies and private individuals are all participating to the financial market, directly, when they make an investment or ask for a loan, or indirectly, in almost any transaction involving money.

There is a regulated financial market, under the oversight of financial authorities (e.g., ESMA is the European regulator, the SEC is an American regulator), and an unregulated market, which thrives around the many exceptions provided by the laws and in the tax havens (where regulation is very light, if any). Even within a regulated country, transactions can happen on a regulated exchange market or over the counter, which is outside a regulated environment.

Investments can take the form of the basic purchase of listed shares or government bonds, but they can also involve a number of “speculative bets” on how a share, a product, a currency, a commodity or other assets may perform. There are many types of bets, so called derivatives, and the complexity of the financial products can be such that only professionals can understand them. Often algorithms are used for trading.

The people working in the financial sectors are mostly bankers, investment managers and advisers, lawyers, accountants and many back-office and sale people. The main investors in the financial market are pension funds, insurance companies, high net worth individuals, mutual funds (open to investments by private individuals) and

[1] http://www.people.hbs.edu/dscharfstein/growth_of_modern_finance.pdf
[2] The Bretton Wood agreement of 1944 had established an international fixed exchange rate system based on the gold exchange standard, in which currencies were pegged to the United States dollar, itself convertible into gold. On August 15, 1971, President Richard Nixon unilaterally suspended the convertibility of US dollars into gold. This event is referred to as the “Nixon Shock”

sovereign debt funds. Not everyone can invest in every financial products and some products, generally those riskier and with higher returns, have minimum investment levels that are too high for the average person (such as hedge funds and private equity funds).

In terms of size, there is a large portion of the financial sector that is not countable because it operates outside regulated markets or has no public accounts, however, we can count the US$84.9 trillion of financial assets managed globally in 2016 [3], the US$80 trillion of all listed stocks worldwide in 2017[4], the US$ 164 trillion of global debt in 2016[5], of which US$59 trillion is public debt[6]. These numbers are very large and in order to grasp their value it may be useful to consider that global domestic product which is the market value of all the final goods and services produced, is US$87.5 trillion for the year to April 2018[7].

Finance is so big and pervasive that it is hard to imagine the modern world without finance. It is the product of capitalism (fuelled by profit money) and also the engine of capitalism (creating more money). Human greed seems unleashed to an unprecedented scale when profit and luxury become the ultimate goal of everyone, when being a shareholder is the ultimate goal, above any regard to the cost and consequences of making shareholders ever richer. Only financial crisis that demand public money to save financial institutions deemed "too big to fail" seem to awaken to the consciousness that finance can not be left unruled, but that awareness quickly fades as headline profits start rising again. And so it is that safeguards put in place following the financial crisis are quickly rolled back when the heat is over[8] and real concerns are not addressed. It is therefore very important to understand how finance works and try and address the imbalance it creates.

Let's briefly mention the financial crisis of 2008, which followed the bankruptcy of Lehman Brothers, an investment bank, due to financial products created on the back of mortgages that were badly designed and subject to savvy speculation, but also the corruption of the fixing of the LIBOR in 2012 (an index that was used for virtually all financial transactions with current exposure that reaches US$370 trillion[9]), the increased

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[3] https://press.pwc.com/News-releases/global-assets-under-management-set-to-rise-to--145.4-trillion-by-2025/s/e236a113-5115-4421-9c75-77191733f15f
[4] http://uk.businessinsider.com/global-market-cap-is-about-to-hit-100-trillion-2017-12?IR=T
[5] https://www.imf.org/en/Publications/FM/Issues/2018/04/06/fiscal-monitor-april-2018
[6] https://www.economist.com/content/global_debt_clock
[7] http://www.imf.org/external/datamapper/NGDPD@WEO/OEMDC/ADVEC/WEOWORLD
[8] https://www.cbsnews.com/news/dodd-frank-rollback-5-things-to-know-about-bill-to-cut-banking-regs/
[9] https://www.isda.org/2018/02/05/the-370-trillion-benchmark-challenge/

inequality between rich and poor[10] and the increased gap between the average pay of working people and their bosses[11].

There are distortions that can be addressed only by regulatory means and public policy - for instance, the problem of accountability in the financial sector[12] (only one person was arrested for the LIBOR scandal), the fight to tax havens (which remove from the real economy large amount of resources) and the control of public debt (whose amount is based on the forecast of a country Gross Domestic Product[13] rather than on the smaller amount of the taxes collected by that country, so that a country has to issue new debt for the purpose of refinancing the existing debt[14]). And there are also issues that concern the behaviour of individuals and companies and highlight the need to educate the people who work in finance about the consequences of their actions. The fall-back answer in the financial sector to questions that pose a moral hazard is “I will do it because if I don’t someone else will” and that is a behaviour without any morality.

To be constructive, we should educate ourselves and probably ask questions that can be helpful to shape public policies. Out of the many questions I propose to consider 3 subjects:

1. We produce more to make more money and have more money to buy more products. Waste is ever increasing. Is over production and exploitation of natural resources due to excessive amount of money in circulation?
2. The spiralling of the debt, escalated by fiat money, leaves the entire economy exposed to risk. Should we re-establish a connection between the value of money and precious assets?
3. There is a need for a social pact between powerful and rich people and the society whereby the wealthy help the rest[15]. What can be done for a widespread social pact? Is it possible to replace at least some of the profits with some form of social recognition and reward? Or should profit be capped and the cream on top shared?

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[10] https://inequality.org/facts/wealth-inequality/

[11] The average for 700 large listed companies in US is $9million salary for the chief executive and $69,000 for employees (the Economist, May26th 2018).

[12] http://www.vatican.va/roman_curia/congregations/cfaith/documents/rc_con_cfaith_doc_20180106_oeconomicae-et-pecuniariae_en.html para.21

[13] Italy had a GDP of around € 1,710,000,000 in 2017 and tax collection of € 500,000,000. See page 6 of the Documento di Analisi e Finanza 2018 ,sezione II, at http://www.rgs.mef.gov.it/_Documenti/VERSIONE-I/Attivit--i/Contabilit_e_finanza_pubblica/DEF/2018/DEF_2018_-Sez_2_-_Analisi_e_Tendenze_della_Finanza_Pubblica.pdf

[14] In Italy in 2016 the total maturing bonds were € 345,193 million and the Government securities issued in 2016 amounted to € 399,449 million, see page 44 of Public Debt Report by Ministero dell’Economia, available on http://www.dt.tesoro.it/export/sites/sitodt/modules/documenti_en/debito_pubblico/presentazioni_studi_relazioni/Public_Debt_Report_2016.pdf
Information on current debt issuance is available on
http://en.upbilancio.it/the-refinancing-of-the-italian-debt-2018-2019/

[15] One of many examples is the inheritance left by Julius Caesar to each Roman citizen upon his death. https://www.quora.com/What-were-the-contents-in-Julius-Caesars-will

These questions are aimed at stirring a debate on the nature and reasons for finance and money generally. We need an honest and broad discussion on the goals of humanity, both as individuals and as communities, because even if we are richer we are not happier. It is possible to have a satisfying life in the acknowledgement of others, in the sharing and in the wellbeing of communities. Perhaps the seeds of the Economy of Communion can take roots also in Finance.