

Foreword

by *Cristiana Capotondi*

In 2021 I became a member of the Sustainability Committee at HOPE, an alternative investment fund. I decided to join because I think its main objective is fascinating – to put back at the center stage of finance the Italian small and medium enterprises, and with a view of pursuing a “total sustainability” – economically, but also socially and environmentally based. The very fact that the traditionally exclusive world of finance is opening up its inner sanctum and decision making to people from the world of humanistic culture and from the new generations, signals a search for a new way of doing things and for more lateral thinking.

Certainly, there are rules that must be followed to achieve success, as there are others that we need to keep during normal times – and others that are instead required during times of great change. In fact, we live today in flux, with great transformations and challenges. During times like this, we need to be brave enough to even question Adam Smith, as indicated in the incipit of the book, and his concept of the “invisible hand.” Maybe this is because his economic vision cannot be applied to times of great disruption, like ours. More specifically, the digital revolution is changing our world in new ways. The huge decoupling between those able to embrace the new digital world and those left behind will be brutal if no rules and no state intervention were in place to balance the resulting economic, social and ecological tensions. The very economic growth and wealth creation that our country has been able to sustain after WWII would be put at risk.

Because of all this, I believe there is a profound need to rethink the culture of our contemporary times, not just in economic, but also in social and environmental terms. This is the mission of my association (IoSono) that seeks to help people in gauging how much technological innova-

tion and the core values of liberal democracies, are today at stake and endangered by top down and so called “pragmatic” policy-making; and in understating how they can in fact become sustainable only if they are nurtured by a humanistic culture.

We often speak of never-ending humanism to really mean how our never-ending soul searching should be at the basis of each of our actions. We are born to know ourselves, and to then open up – from our most inner self – to meet and know other people. We love having others to love and fulfil us and overcome that stupid and vexatious dichotomy between egoism and altruism. Adam Smith had fully understood how the wealth of nations is born out of the righteous need of individual organization and success. But maybe he had not fully appreciated or clarified how, behind the utilitarian, selfish motivation of an individual, and behind the very same idea of human being, we need to assume (and advocate) something more profound and even spiritual. As individuals, we are nothing if not understood in the context of our holistic relationships with other fellow human beings and with the larger ecosystem of Planet Earth. This is the ultimate meaning of ESG (Environmental, Social and Governance). Not a new fad or a passing fashion, but something much more profound, critical and urgent that we need to understand and act upon, to pursue a positive impact for us and our future generations and drive change, for good.

1 The Wealth of People

1.1 Wealth of Nations

In his *magnum opus* “An inquiry into the nature and causes of the Wealth of Nations,” the Scottish economist and moral philosopher Adam Smith offers an analysis of what builds nations’ wealth – reflecting on the economics at the beginning of the industrial revolution through a discussion of broad topics such as the division of labour, productivity and free markets. Not only has his book become one of the most influential in modern history, but its resource allocation theory has developed into one of the most substantive and dominant propositions in economics. In a regime of free markets and competition, the owners of scarce resources (labour, land and capital) use them most profitably, exchanging them through the market price mechanism, until an equal rate of return for all uses is achieved at equilibrium. In turn, this principle of focusing each owner, and each nation as a macrocosm of owners, on what they do best (and relatively better than others) optimizes the value that the global economy can create each year. For example: “the fund which originally supplies (the nation) with all the necessaries and conveniences of life which it annually consumes, and which consist always either in the immediate produce of that labour or in what is purchased with that produce from other nations,” as he describes it in his incipit. In short, the relative competitiveness of what they do better allows nations to optimize the value created globally and, in turn, their own. If free markets work on the basis of industrialized production and distribution, supporting the increase in the overall productivity and the optimal allocation of scarce resources, will maximise wealth as a consequence. This overall process of wealth

creation can then be addressed and solved with simple analytics and basic formulas, using a quantitative approach that creates certainty, allowing the free market to do the rest.

In short, as economic agents, we all live to own and consume more, and we produce more as a means to that end. We can do this by focusing on our comparative advantage, as individuals, companies and nations, by leveraging new technologies that, from time to time, are made available, to produce even more and hence own and consume more. Being able to own and consume more is therefore a sign of success, as producing more is an early indicator – albeit not absolute – of this outcome, as different parties in the production and distribution value chain can take a bigger or smaller share, based on the competitive scarcity (or uncompetitive abundance) of what we have on offer, based on our competitive advantage. In short, as decision makers, we can base our choices on a simple analysis of net income or return on equity, or on more sophisticated approaches based on the net present value and the discounted cash flow, or on economic value added and related market capitalization, and count on the workings of the “invisible hand” of the free market. We will all use our scarce resources prudently and optimize our economic fortunes as, through trade, we will be in a position to gain access to everything we do not have by using those fortunes and the money they can be converted into. We will use money to buy everything we want, assuming of course it is sufficient, given the market price. Assuming we, and our nation, are rich enough, almost anything will become possible, based on the polar star of wealth – financial, competitively gained and based on the sacred working of markets and on the use of money. Free markets will work out the best development path to create optimized and sustainable economic growth for the long term. Moral issues could then be addressed later on, once wealth has been maximized, through the use of taxes and liberalities that rich people (and nations) can decide to gift others.

In truth, Adam Smith also hypothesized four “maxim” of taxation – proportionality, transparency, convenience and efficiency – and was one of the first advocates of progressive taxation for the benefit of overall society and to pursue redistribution against the extreme polarization of fortunes. He also warned how any expansive role of the state can negatively impact on economic growth, which is exclusively determined by free markets and by the entrepreneurial nature of private individuals. He argues that if governments can borrow with impunity, they would be