Keynes, ‘love of money’ and the current crisis

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ABSTRACT

Keynes saw ‘love of money’, love for the unlimited accumulation of liquidity as mark of personal success and shield against uncertainty, as a defining element of capitalism. This paper investigates connections between ‘love of money’ and the current crisis establishing two main linkages: bonus-based compensation mechanisms and hedge funds. Closer scrutiny and regulation both of bonuses and hedge funds can help prevent future crises. Permanent solutions to the problems posed by ‘love of money’ however will come only from new models of education and persuasion.

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JEL:

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"Whereas modern theory serves as a simulacrum of the economy – stylised and abstract to be sure – Keynes theory is a diagnostic instrument in the service of Doctor Keynes, consulting economic physician" (Hoover 2006, p. 78)

"I also want to emphasise strongly the point about economics being a moral science. [A science that]…deals with introspection and with values […] with motives, expectations, psychological uncertainties " (Keynes 1938, CW 14, p. 400)

"The love of money is the root of all evils" (1 Timothy 6:10)

Introduction

"The fact is – a fact not yet recognised by the great public – that we are now in the depth of a very sever international slump, a slump which will take its place in history amongst the most acute ever experienced. It will require not merely passive movements of bank rates to lift us out of the depression of this order, but a very active determined policy". These words, an accurate description of present times, were written by John Maynard Keynes eighty years ago on 10 May 1930 in *The Nation* (Harrod 1972, p. 469).

As the world economy spirals into a deep recession, Keynesian economics has once more become fashionable (Farmer 2009a). The debate on Keynes and the crisis has been largely focused on anti-cyclical policy measures, on their short and long-run consequences, on exit strategies and on international transmission mechanisms (e.g. Krugman 2008, Ferguson 2009, Steil 2009, Farmer 2009b). Considerably less attention has been paid to diagnosis, especially in the academic literature, with some recent notable exceltpions (Leijonhufvud 2009a, Bateman *et al.* 2010).

Prevailing interpretations of the current crisis see it as the consequence of exogenous factors including (1) anomalous financial conditions (extraordinarily low real and nominal interest rates, a global savings glut, very low expected and realized volatility), (2) rapid innovation in financial instruments that made credit-risk trading easier, (3) regulation failures, (4) fundamental flaws in the rating agencies' business model, (5) the procyclical behaviour of leverage in much of the financial system and of the Basel capital adequacy requirements, (6) privately rational but socially inefficient disintermediation, and competitive international de-regulation (Buiter (2007, Greenspan 2008, Blundell-Wignall *et al.* 2008, Geithner 2008, Sharma 2008 among many others). According to this school of thought

> Financial crises and deep depressions arise from one of the following: non-essential institutional flaws which prevent the market from working its wonders, the system of intervention contains openings which allow some dirty rotten scoundrels to operate or external shocks dislodge the economy". (Minsky 1991, p. 5)

Similar interpretations leave little room for psychological factors and for the idea that

> The natural laws of development of capitalist economies lead to the emergence of conditions conducive to financial instability. Law and policymakers need to be aware of institutional evolution and to develop instruments to contain the potential for both inflationary surges and deflationary disruptions. Potential instability is a basic system characteristic.(Minsky 1991, p.6).

Building on this intuition, shared by the author of this paper, Minskian interpretations of the current crisis see it as the latest manifestation of recurrent financial instability (Rochon 2003, Wray 2009). De Antoni (2009), adopting a strictly Keynesian perspective, argues that the current crisis comes from the US and from the exhaustion of investment opportunities compensated by lending to households rather than from an externally financed rise in investment leading to euphoria and fragility in the sense of Minsky. Both Minskian and Keynesian interpretations agree on the relevance of psychological endogenous factors. Most investigations of the psychological determinants of the current crisis come from the field of behavioural finance. Dow (2009) explores the role for psychology within Minsky's financial instability hypothesis moving away from behavioural models. This paper adopts yet a different approach within the same strand of literature, focusing on the Keynesian concept of 'love of money'.

Keynes thought that 'love of money', love for the unlimited accumulation of liquidity as mark of personal success and shield against uncertainty and fear, was an essential driver of capitalism. Love of money is a specific form of greed,[2] greed for liquidity, for purchasing power and for social recognition in a competitive and uncertain world. It is one of those psychological forces which Akerlof and Shiller (2009), possibly perpetrating a solecism (King 2010), have recently labelled *animal spirits*.

As both 'love of money' and (endogenous) crises characterise modern finance-based capitalism (Hein and Truger 2001), the goal of this paper is to investigate possible connections between these two phenomena.[3] Focusing on the current crisis, the main conclusion of the paper is the main connections are related to bonus-based compensation mechanisms and hedge funds. Aggressive competition on financial markets, the adoption of dubious and fraudulent practices, the huge amount of resources spent to fend off all attempts at changing bonus-based compensation mechanisms in the banking and financial sector are all related to the 'love of money' motive and to its potential disruptive effects.

[2] The claim that human greed may cause over-lending and financial crisis is a recognised fact by Keynesian scholars. In *A Short History of Financial Euphoria* (1993), for example, John Kenneth Galbraith shows how human greed was behind all the financial bubbles. Mason (2009) identifies greed as the qualifying element of the current crisis.

[3] On money and capitalism see among others Lau and Smithin (2002).

The structure of the paper is as follows. Section 1 recalls the key facts of the crisis. Section 2 discusses Keynes's view of capitalism and 'love of money'. Section 3 explores 'love of money' in connection with the present crisis. Section 4 discusses why recognition of the disruptive impact of 'love of money' is impossible within mainstream economics. Section 5 concludes.

1. The facts of the crisis

At the start of the 21st century central banks inundated the world financial system with liquid reserves in response to a series of potentially destabilising events: the 'millennium bug' (Kelly 1998), the looming recession, the events of 9/11, the second war in Iraq; a monetary policy for a time of war as De Cecco (2007) defines it.[4]

The policy succeeded and banks, their fears receding, embarked on a lending spree, mostly directed to household sectors, especially in the US (De Antoni 2009). Bank loans were then turned into liquid and (apparently) safe securities through securitisation.[5] Trading volumes of mortgage and asset-backed securities increased supported by optimistic ratings and financial innovation (CDOs, CDS). Lending encouraged economic recovery. The wealth-owning classes obtained huge windfall gains thanks to booming stock-exchanges and fast rising house prices. These were either spent or reinvested (e.g. through the home equity mechanism). Income distribution became increasingly iniquitous and polarised throughout the western world (Palma 2009) .

In 2004 central banks responded to mounting inflationary pressures by gradually restricting monetary conditions. Marginal debtors were the first to be affected. Doubts on the value and liquidity of asset-backed securities spread. Mortgage delinquencies and foreclosures rose sharply after U.S. house prices peaked and began to fall in early 2007. Banks and other financial intermediaries started registering large losses on their holdings of non-prime residential mortgages and mortgage-backed securities (Blundell-Wignall 2008).

As Leijonhfvud (2009a) recalls "August 7, 2007 has become the date generally accepted as the day the crisis hit. It was not the day that problems first began to reveal themselves. There had been trouble in American housing and mortgage markets going back to the previous autumn. But on August 7, the interbank market froze. The banks would not lend to each other. This was virtually unprecedented, something that market participants had not experienced before". Banks tightened their lending standards, which reduced the availability of loans and increased their cost.

[4] Before this time monetary expansion had been the policy chosen both by the central bank of Japan and the US Federal Reserve, in response to the intrinsic fragility of the US financial system (De Cecco 2001).

[5] On securitisation and its role in the crisis see González-Páramo 2008. On the relationship between securitisation, financial fragility and instability see Kregel (2007). For a reconstruction of the current crisis see Krugman (2009)

Tensions in money markets came in several waves. Money market tensions intensified again in early March 2008, as the financial turmoil showed signs of worsening and spreading. (BIS 2008, p. 3-4) As investors retreated to the safety of government bonds, yields on risky assets were driven up. Investor concerns intensified during 2008 as financial losses continued to mount. The crisis peaked in September 2008 when the bankruptcy of Lehman Brothers and near-bankruptcy of American International Group (AIG).[6] Risks of a new recession emerged. As BIS (2008) recalls

> What had started as a problem specific to the US subprime mortgage market became a source of outsize losses for financial firms worldwide on their holdings of related securities. Uncertainty about the size and distribution of losses was exacerbated by the complexity of the new structures used in the securitisation process. Retrenchment from risk-taking led to illiquidity, exposing weaknesses in the funding arrangements of many financial firms. Indeed, the situation was punctuated by the near failure of sizeable financial firms, prompting intervention by the public sector to avert potential systemic repercussions from a disorderly collapse. (BIS 2008)

The rapidity and severity with which the crisis of the US sub-prime mortgage market spread to the rest of the world depended on the high degree of coupling[7] and complexity[8] of the international banking and financial system, the result of many years of financial deregulation inspired by a *laissez-faire* approach to finance (Dowd 1996) often encouraged by monetary and regulatory authorities especially in the U.S. (e.g. Greenspan 1998) . The liquidation of the Glass-Steagall act, the adoption of the originate-to-distribute model by many banks *in lieu* of the traditional originate-to-hold model, the diffusion of derivative products and financial innovation engendering the false belief that risk diversification meant risk elimination form part of this process (on this see Davidson 2008). As recently noted in a report by UNCTAD,

> Financial deregulation driven by an ideological belief in the virtues of the market has allowed "innovation" of financial instruments that are completely detached from productive activities in the real sector of the economy. Such instruments favour speculative activities that build on apparently convincing information, which in reality is nothing other than an extrapolation of trends into the future" (UNCTAD 2009).

[6] Source http://timeline.stlouisfed.org/

[7] Tight coupling is where every component of a certain process is tightly linked, with little room for error. With tight coupling, each action of the system immediately triggers the next. (Source http://www.futureblind.com/2009/01/the-real-causes-of-the-financial-crisis/).

8 Interactive complexity is when a system is not only complex, but has components that can interact in unexpected or varied ways. There are non-linear interactions and feedback loops that occur within the process. As long as the system isn't tightly coupled, the problem can eventually be fixed because there is the time and flexibility to solve it. (Source http://www.futureblind.com/2009/01/the-real-causes-of-the-financial-crisis/).

Lack of accounting transparency and the use of statistical models often tested on incomplete and insufficient data, exacerbated the problem. As Truman (2009) recalls starting in the summer of 2007, the monetary authorities generally acted quickly to adopt measures responding to the demand by financial institutions for increased access to central bank liquidity. As part of the containment phase of the crisis, a few central banks have embraced so-called unconventional monetary policies with respect to what they buy, on what terms, and whether they worry about the consequences for the liability sides of their balance sheets. It was not until the second year of the crisis, starting in late 2008, that discretionary fiscal policy came to be widely used by those countries with scope to do so. BIS (2010) documents the partial success of these interventions at a global level.

2. Keynes, capitalism and love of money

As Backhouse and Bateman (2009) note, Keynes believed that capitalism was not an end in itself but an essential mean to attain material prosperity and to preserve individual freedom. As a mean however it was fragile and, especially after World War I, in need of regulation and repair. The adjective he most frequently used to qualify pre-war *capitalism* was “individualistic”; a term referring both to businessmen and to the institutions preserving private enterprise and related to capitalism being founded on individual saving and private accumulation of wealth. Wealth accumulation in turn depended on distributive inequality, on people accepting to live frugal lives, on perceived fairness in rewards, on the stability of the value of money. If one or more elements failed, as they had done at the end of World War I, the delicate and complex machine of capitalism would cease to function.

While accepting it as a necessity, Keynes raised technical, moral and aesthetic objections against capitalism (Moggridge 2005). Technically, capitalism was prone to instability, stagnation and distributional inequality (Keynes 1936, Ch. 24). On aesthetic grounds its main defect was its disregard for valuable things that paid no money: art, friendship, the contemplation of beauty and the free pursuit of knowledge, things which Keynes, with his Cambridge and Bloomsbury background, valued most (Dostaler 2007).

> The same rule of self-destructive financial calculation governs every walk of life. We destroy the beauty of the countryside because the unappropriated splendours of nature have no economic valur. We are capable of shutting off the sun and the stars because they pay no dividend. (Keynes 1933 p. 242).

> This view was the utilitarian and economic – one might almost say financial – ideal, as the sole, respectable purpose of the community as a whole; the most dreadful heresy, perhaps, which has ever gained the ear of a civilized people. Bread and nothing but bread, and not even bread, and bread accumulating at compound interest until it has turned into stone (Keynes 1936 p. 242)

On the moral side, it was 'love of money' that Keynes found most detestable in capitalism.

As Backhouse and Bateman (2010) recall, in the second half of the 1920s Keynes thought of writing a book titled *An Examination of Capitalism*. In the end he gave up the project leaving behind two outlines of what he intended to cover. Interestingly, the starting point was 'the love of money' and the idea that capitalism was a device through which "greedy instincts" could be mobilized to promote "technical improvements, hard work, and saving".

According to Dostaler (2007), the reflection on the fragility of possessing monetary wealth and the expression of contempt for the love of money appear in many of Keynes writings, starting with the first papers he read in front of the Apostles. Keynes believed that 'love of money', the basis of capitalism, was an instinct whose neurotic dimension seemed obvious to him, an idea he shared with Freud. In his 1925 *Short view of Russia* Keynes argued that

> It seems clearer every day that the moral problem of our age is concerned with the love of money, with the habitual appeal to the money motive in the nine-tenths of the activities of life with the universal striving after individual economic security as the prime object of endeavour, with the social approbation of money as the measure of constructive success, and with the social appeal to the hoarding instinct as the foundation of the necessary provision for the family and the future". (Keynes, 1925 pp.268-9)

In 1926 in the *End of Laissez faire* Keynes noted that

> Capitalism depends upon an intense appeal to the money-making and money-loving instincts of individuals as the main motive force of the economic machine' and 'love of money' ,'one of the most powerful of human motives' which 'is harnessed to the task of distributing economic resources in the way best calculated to increase wealth […]acting through the pursuit of profit, as an adjutant to natural selection, to bring about the production on the greatest possible scale of what is most strongly desired as measured by exchange value' (Keynes 1926).

In 1930 in the *Economic Possibilities for our Grandchildren* , describing a future world free of economic care defined, Keynes wrote

> The love of money as a possession - as distinguished from the love of money as a means to the enjoyments and realities of life - will be recognised for what it is, a somewhat disgusting morbidity, one of those semi-criminal, semi-pathological propensities which one hands over with a shudder to the specialists in mental diseases". Love of money is related to intense, unsatisfied purposiveness to blidly pursue wealth in the attempt to secure a spurious and delusive immortality. (Keynes 1926)

Dostaler (2009), focusing on the psychological dimension of the love of money, explains that

> Keynes came to believe that the irrational love of money was the very motor of capitalism. The majority of human beings desire money for itself, and some prove themselves willing to transgress all moral boundaries to acquire it. […] To enrich oneself becomes to accumulate without end. There is no limit to the amount of money one can possess. The mark of success, of power, of notoriety, becomes a sum of money. We are "worth" the sum".

Like Freud, Keynes saw the pursuit of money as a means of channelling aggressive impulses

> Dangerous human proclivities can be canalised into comparatively harmless channels by the existence of opportunities for money-making and private wealth, which if they cannot be satisfied in this way, may find their outlet in cruelty, the reckless pursuit of personal power and authority, and other forms of self-aggrandissement. It is better that a man should tyrannise over his bank balance than over his fellow-citizens; and whilst the former is sometimes denounced as being but a means to the latter, sometimes at least is an alternative. (Keynes 1936, p. 374)

and, money the '*subtle device for linking the present to the future'* (Keynes 1936, p. 294), also as a shield against fear of uncertainty and death.[9]

> Our desire to hold money as a store of wealth is a barometer of the degree of our distrust of our calculations and conventions concerning the future. Even though this feeling about money is tself conventional or instinctive, it operates, so to speak at a deeper level of our motivation. It takes charge at the moments when the higher more precarious conventions have weakened. The possession of actual money lulls our disquietude". [Keynes 1937, pp. 116]

[9] Runde (1994) confirms that Keynes's reference to uncertainty in the context of the liquidity preference theory is essentially about the uncertainty which originates from the shattering of the state of confidence, the conventional basis on which rests the trust we put in our probabilistic calculations Runde is here referring to Keynes's two-tier theory of belief where probability is, at the first level, a measure of the belief in some conclusion relative to some specific body of evidence. Weight is at the second level, a measure of the completeness of the evidence on which that belief is based.

3. Love of money and the current crisis: bonuses and hedge funds

Leijonhufvud (2009b) description of the climate in the imminence of the crisis, is an excellent starting point to investigate connections between 'love of money' and the current crisis.

> When leverage is rising all around with everyone buying on credit, everyone is also merrily making money. The profits thus made reinforce the process. Meanwhile, securitisation of loans and credit default swaps serve to obscure rising risk. Competition forces even those firms and individuals who realise that risk is rising to follow along or else be pushed out of the game altogether. A loan officer who does not lend, a risk manager who does not go along, a manager whose bank branch does not grow will all be under threat to lose their positions. The pressure to run with the herd becomes hard to resist. In this stage of the process, opposition to government interference with .free enterprise will be fierce and almost universal. But risk is constantly increasing and the financial system as a whole becomes steadily more fragile until eventually it is so fragile that when it finally breaks it can be difficult to identify what exactly made it happen". [Leijonhufvud 2009, p. 5]

Loan officers, risk managers and bankers were induced to over-lend and to take advantage of securitisation, often resorting to dubious and fraudulent practices (e.g. predatory lending), because competition forced them to do so with bonuses as the prize to win. The increasingly enormous size of monetary bonuses paid in recent years the financial industry is the first connection between 'love of money' and the current crisis. As Friedman and Friedman (2009) recall

> Richard Fuld, CEO of Lehman Brothers, earned approximately half-a-billion dollars between 1993 and 2007. Kristof (2008) observes that Fuld earned about $17,000 an hour to destroy a solid, 158-year old company. A.I.G. Financial Products, a 377-person office based in London, nearly destroyed the mother company, a trillion-dollar firm with approximately 116,000 employees. This small office found a way to make money selling credit default swaps to financial institutions holding very risky collateralized debt obligations. A.I.G. Financial Products made sure that its employees did very well financially; they earned $3.56 billion in the last seven years (Morgenson, 2008b). One of the big problems at many Wall Street firms was how compensation was determined. Bonuses made up a huge part of how people were compensated. One individual at Merrill Lynch received $350,000 as salary but $35,000,000 as bonus pay. Bonuses were based on short-term profits; this distorted the way incentives work. Employees were encouraged to take huge risks. since they were interested in the bonus. Bonuses were based on the earnings for that year. Thus, billions in bonuses were handed out by

> Merrill Lynch in 2006 when profits hit $7.5 billion. Of course, those profits were only an illusion as they were based on toxic mortgages. After that, the company lost triple that amount; yet the bonuses were not rescinded (Story, 2008). (Friedman and Friedman 2009, p 11).

Sinclair *et al.* (2008) conclude their discussion on the economics of bonuses claiming that this form of compensation can bring large benefits but also be harmful. In the financial sector, this is especially true, above all when bonuses are related to noisy indicators of performance over brief periods. Burtless (2009) confirms that, in the current crisis, many of the decisions about asset purchases and extensions of credit were made by senior managers who had financial interests that differed substantially from the long-term interests of the shareholders for whom they supposedly worked. Kirkpatrick (2009), in his discussion of corporate governance lessons from the financial crisis, confirms that remuneration and incentive systems have played a key role, causing the development of unsustainable balance sheet positions and that remuneration problems also exist at the sales and trading function level. Friedman and Friedman (2009), in their broad and documented analysis of the consequences of unethical behaviour in the context of the present crisis, conclude that this debacle could not have occurred if the parties involved had been socially responsible and not motivated by greed. Conflicts of interest and the way CEOs are compensated are at the heart of this financial catastrophe. Erkens *et al.* (2009) find that firms that used CEO compensation contracts with a heavier emphasis on annual bonuses (as opposed to equity-based compensation) experienced larger losses during the crisis and took more risks before the crisis. Taleb (2009) argues the mismatch between the bonus payment frequency (typically, one year) and the time to blow up (about five to 20 years) is the cause of the accumulation of positions that hide risk by betting massively against small odds.

A second connection between 'love of money' and the present crisis is related to the existence of hedge funds. As Stromqvist (2009) recalls, ”Hedge fund” is a collective term for different types of investment fund. A common feature of these funds is that they have absolute earnings targets, irrespective of market developments. Hedge funds are primarily intended for institutional investors and financially-strong private individuals. Over the last ten years, the hedge fund market has grown dramatically. In 1996, the approximately 2 000 hedge funds around the world managed a total of approximately USD 135 billion.

Slightly stretching the concept, 'love of money, the endless pursuit of liquid wealth *per se* as mark of success and shield against uncertainty is indeed the distinguishing feature of hedge funds. First, possession of huge liquid wealth is a pre-requisite to enter into a hedge fund. Second, 'love of money' and bonus-based compensation mechanisms affect the way hedge funds are managed and create powerful incentives to speculate an risk. Third, Many hedge funds protect their investments against losses (so-called hedging) although this does not apply to all funds. As Crotty (2009) notes, partners in hedge and private equity funds typically charge 2 percent of assets managed plus 20 percent of profits. Since high returns both raise profit and help increase the size of assets under management, there are strong reasons to take risk in pursuit of high returns in a boom. Partners do not have to return their boom-induced fortune in the downturn. Fourth, mutual fund managers' pay also rises with the size of assets under their control, and assets are maximized in a boom by earning the high returns associated with risky investments. This is an industry susceptible to herd behavior.

Hedge funds are seen by many as contributing to financial crises including the present one. The criticism mainly relates to the possibility that hedge funds have a strong negative impact on asset prices by launching speculative attacks on certain companies, sectors or currencies, through short-selling. This effect may be reinforced if the speculative manoeuvre generates herd behaviour among investors. Hedge funds have also been accused of contributing to the development of financial bubbles and manipulating asset prices. Lo (2008) concludes his discussion on hedge funds, systemic risk, and the financial crisis of 2007–2008 , recognising the role of fear and greed, the main determinants of 'love of money' as also determining the way hedge funds are usually managed.

3. Mainstream blindness to 'love of money'

As Chick and Tily (2004) note, in mainstream economics Keynes is dead. Standard macroeconomics is now classical economics, even though it may appear to be constructed from Keynesian components. Over the past three decades, economists have largely developed and come to rely on models that disregard key factors—including fundamental uncertainty, heterogeneity of decision rules, revisions of forecasting strategies, and changes in the social context—that drive outcomes in asset and other markets. The current academic agenda has largely crowded out research on the inherent causes of financial crises (Colander *et al.* 2009)

Leijonhufvud (2008) explains the theoretical blindness of the economic profession *vis à vis* Keynesian interpretations of the current crisis to mainstream reliance on the market efficiency hypothesis, rational expectations and the representative agents (Malkiel 2003). Wray and Teymogne (2008) remind us that "the efficient market hypothesis, like all approaches derived from the old neoclassical theory, relegates money and finance to the sidelines." As Davidson (2008b) points out, underlying the efficient market hypothesis is a fundamental axiom, the ergodic axiom. This axiom presumes that there exists an unchanged probability distribution governing past, present, and future events. In a world of efficient financial markets, holders of market-traded assets can readily liquidate their position at a price close to the previously announced market price whenever any holder wishes to reduce his/her position in that asset. Keynes's liquidity preference theory on the other hand presumes that the economic future is uncertain. Consequently, the classical ergodic axiom is not applicable. In a nonergodic world, current or past probability distribution functions are not reliable guides to the probability of future outcomes.

If a deep rooted belief in the efficient market hypothesis and ergodicity rendered many in the economic profession blind to the risks posed by the financial deregulation this is all the more true in the case of the psychological factors including the 'love of money' . A recent book, collecting the comments of twelve renowned economists on Keynes's *Economic possibilities for our Grandchildren* (Pecchi, Piga 2009) provides an excellent occasion to test the distance between mainstream Keynesian views of capitalism and 'love of money'.

Keynes's contempt for the money motive and the strenuous "*purposeful money-makers (who) may carry all of us along with them into the lap of economic abundance*" is generally dismissed as the confused and elitist expression of moralistic prejudice and the perfect example of a unscientific approach to economics. Boldrin and Levine (2009), for example, attack Keynes for confusing real and monetary factors. Phelps (2009) sees Keynes disdainful attitude towards the quest for wealth as *unusual for an economist,* emblematic of anti-materialism and blind to the intellectual satisfactions in business life. Ohanian (2009) describes Keynes' attitude as that of a *judgemental and critical social commentator who uses his economist's pulpit to make a rather puritan-based vision of the future.* Fitoussi (2009), recognises that Keynes' rejection of capitalism, with its greediness and egoistic behaviour, is not *so badly founded* but labels Keynes' attitude *Elite Communism* and pities Keynes' contempt for the wealthy classes.

For mainstream economics, as represented by these comments, Keynes's criticism of love of money is either pointless or wrong for at least four reasons. First, rational economic agents, free from money illusion, are interested in maximising utility and profit functions rather than money balances. Second, under normal conditions, nominal money holdings are kept to a minimum in favour of yield-bearing assets and appropriate risk-hedging strategies. Money is a medium of exchange and only transitorily a store of value. The concept of 'love of money' itself, with its moralistic and puritan tinge, is incompatible with the status of economics as a deductive science and with neutrality on moral and aesthetic issues. Fourth, if 'love of money' conduces to higher saving and wealth, to the competitive selection of the best CEOs and the most profitable investment strategies by aggressive risk-taking hedge funds it should be welcomed rather than decried as an example of Adam Smith's 'invisible hand' at work.

Fundamental uncertainty answers the first two criticisms. In response to the third criticism we may use Meltzer's words in his review of Pecchi and Piga (2009)

> None of the essaysts mention that Keynes's beliefs about material wealth, money, avarice, and greed were standard beliefs based to a considerable extent on what he learned from the philosopher G. E. Moore during his student years at Cambridge. […] [For Keynes] the objects of life were, or should be, love, truth, beauty, timeless contemplation, and the pursuit of knowledge. […] He rejected the Benthamite utilitarian calculation, with its emphasis on gains and losses in utility. (Meltzer 2009, p. 761)

And Keynes' own words when he writes

> I also want to emphasise strongly the point about economics being a moral science. I mentioned before that it deals with introspection and with values. I might add that it deals with motives, expectations, psychological uncertainties. One has to be constantly on guard against treating the material as constant and homogeneous. (Keynes 1938)

In response to the last criticism, Friedman and Friedman (2009) recall that Joan Robinson made the point more than 30 years ago that the pursuit of self-interest may be harmful to society and that Adam Smith should not be associated with this doctrine.[10] In actuality, Smith believed that society cannot subsist among those who are at all times ready to hurt and injure one another." Raw self-interest without a foundation of morality is not what Adam Smith is all about. Robinson ended a commencement address with the following warning: "I hope … that you will find that the doctrines of Adam Smith are not to be taken in the form in which your professors are explaining them to you" (Robinson, 2007).

4. Concluding remarks

The tree of the current crisis has many roots, some superficial, others reaching deep into the social and economic fabric of our societies. 'Love of money' belongs to the latter group. Following Keynes' views on capitalism and the money-motive, this paper defines 'love of money' as love for the unlimited accumulation of liquidity as mark of material success and shield against uncertainty. It is a concept related to greed but greed of a special kind, greed for liquidity and for social recognition and greed mixed with fear of uncertainty and death.

[10] On this see also Roncaglia (2005) p. 145, footnote 56.

As both ‘love of money’ and (endogenous) financial crises characterise finance-based capitalism, the goal of this paper has been to investigate possible connections between the two phenomena. Focusing on the current crisis, two main connections have been established: bonus-based compensation mechanisms and hedge funds. Both these mechanisms revolve around huge flows of money motivating economic agents to adopt high-risk strategies which certainly enhance the possibility of a crisis. Aggressive competition on financial markets, the adoption of dubious and fraudulent practices, the huge amount of resources spent to fend off all attempts at regulating bonus-based compensation mechanisms are all related to the ‘love of money’ motive and to its potential disruptive effects.

Expansionary measures in response to the crisis may be useful in the short run but are unlikely to provide definitive to the problems posed by ‘love of money’ . On the contrary, by postponing / avoiding structural adjustment and by validating moral hazard and excessive risk-taking, standard Keynesian policies may be actually setting the stage for the next crisis.

Assuming that little can be done about ‘love of money’ in the short to medium run, the only policy prescription against the havoc it wreaks is to seriously regulate bonuses and compensation practices in the banking and financial industry especially in the hedge fund sector, whose destabilising potential through leverage-based speculation is the highest. This should be part of a broader regulatory reform plan aimed which should be inspired by two guiding principles. First, robust barriers will have to be re-established to prevent the spreading of financial contagion when it occurs in some part of the system barriers similar to those much that were established in the USA and in the rest of the world during the 1930s and 1940s. Second, a “keep it simple” approach should be adopted both in regulation and in financial contract drafting in order to reduce the overall level of complexity which far to often breeds uncertainty and fraud. In the long run, however, solving the problems posed by ‘love of money’, including its potential to generate financial crises, will require a new economic philosophy and a constant effort of persuasion.

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