The Wealth of Nations

Marking Two Hundred and Fifty Years

1776 – 2026

The Wealth of Nations: Marking Two Hundred and Fifty Years

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Building on Scotland's intellectual heritage and its historic contribution to economic thought, GEFI's work seeks not simply to critique modern finance, but to explore how financial systems can better serve long-term prosperity, resilience and societal wellbeing. Through practical collaboration and cross-sector dialogue, GEFI aims to connect ideas with implementation and translate ethical finance from principle into action.

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Foreword

By Barry O'Dwyer

Barry O'Dwyer

Group CEO, Royal London

Barry O'Dwyer is an actuary with extensive financial services experience in the UK and Ireland. He began his career at Standard Life in 1988, when it was a mutual. In 2008, he moved to HBOS and, shortly afterwards, to Prudential UK Europe, where he became Deputy Chief Executive Officer. He returned to Standard Life in 2013, where he became Chief Executive Officer of Standard Life's platform, pensions and savings businesses. He joined the board of Standard Life plc in 2017. Following Standard Life plc's merger with Aberdeen Asset Management, he was the head of Standard Life Aberdeen plc's UK business, before joining Royal London in 2019. Barry is currently a member of the board of the Association of British Insurers, a member of the board of the International Cooperative and Mutual Insurance Federation and a non-executive director of Yorkshire Building Society.

This year marks 250 years since the publication of Adam Smith's *The Wealth of Nations*. It is a milestone that invites reflection, not simply of Smith's work but also of the very purpose of financial markets.

Adam Smith is often held up as the intellectual father of modern capitalism and remains central to how we think about markets. But he is often remembered in ways that are partial, and sometimes misleading. Smith did not separate economics from moral philosophy; later generations did that for him. Economic progress and moral judgement were, for Smith, deeply connected – *The Wealth of Nations* was always meant to sit alongside his earlier work *The Theory of Moral Sentiments*. He understood markets as social institutions, shaped by trust, justice and shared norms of behaviour.

Seen through that lens, purpose and profit are not competing objectives. Profit is essential, but it is sustainable only when it is generated in ways that support long term value creation – not just for customers, but more broadly, for the society and economy in which we all exist. This is particularly important for Royal London. As a customer-owned business, we exist to serve our customers over the long term. Our success depends on the resilience of the wider economy, on confidence in markets, and on the ability of institutions to support people not just today, but decades into the future.

When moral context is stripped away, markets become efficient at pricing almost anything – except their own long term viability. Today's markets are vastly more complex than anything Smith could have imagined. Capital flows faster, financial systems are more interconnected, and the consequences of failure are felt more widely. At the same time, we are operating under conditions that challenge some of the assumptions that underpinned earlier economic models. This includes the availability of natural resources, the stability of the climate and the resilience of social and political institutions.

Addressing these issues will require imagination. The question is no longer simply how markets can grow, but how they can continue to function effectively over time.

That is why this publication matters. It encourages a more rounded conversation about markets, examining what we might have forgotten about Smith's work and considering how we can solve the problems markets are facing today. By revisiting Smith in full – and placing his ideas alongside other intellectual, cultural and ethical traditions – it challenges the idea that markets can function well without considering society and the environment.

The contributors to this collection explore how we can think beyond growth as a universal measure of success; the importance of trust, restraint and reciprocity; and the risks that arise when price is mistaken for value. The collection also confronts the moment we find ourselves in now. Responsible investment and stewardship are at a crossroads, facing both critique of how they can be most effective, and politicised backlash. The essays examine responsible investment and stewardship not as trends or labels, but as approaches to address the real, material challenges facing the financial system.

Two hundred and fifty years on, Adam Smith's central insight still holds: markets work best when they are grounded in strong institutions, clear rules and a shared sense of responsibility. Our task today is to reclaim that understanding and apply it under very different conditions.

Markets, after all, are a human invention. They reflect what societies choose to remember – and what they choose to forget. The task before us is not simply to look backwards with reverence, but to look forwards with moral imagination: to ask what kind of economy we are building, whom it serves, and whether it is capable of enduring.

These, I suspect, are the questions Adam Smith would still want us to answer.

Preface

By Dame Susan Rice & Omar Shaikh

Dame Susan Rice

Chair, GEFI Global Steering Group

Dame Susan Rice is Chair of GEFI's Global Steering Group and a prominent figure in banking, sustainable finance, and economic policy. The first woman to lead a UK clearing bank as Chief Executive of Lloyds TSB Scotland, she has held senior roles including Director of the Bank of England, Chair of Scotland's Fiscal Commission, and Senior Independent Director of major listed companies.

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Managing Director, GEFI

Omar Shaikh is a Chartered Accountant and leading advocate for ethical, sustainable, and Islamic finance, with extensive experience advising governments, regulators, and financial institutions. Formerly Head of Islamic Finance at EY London, he has led pioneering initiatives including the Path to COP, the SDG Financial Products Platform with UNDP, the Global Islamic Finance and UN SDGs Taskforce, and the award-winning Edinburgh Finance Declaration.

Two hundred and fifty years after the publication of *The Wealth of Nations*, the questions confronting markets today increasingly extend beyond growth, efficiency and capital allocation alone. Across finance, policy and society, there is growing recognition that markets cannot be separated from the institutional, environmental and moral conditions that sustain them. At a time of geopolitical fragmentation, declining public trust, systemic environmental risk and rapid technological disruption, the challenge is no longer simply how markets create wealth, but whether they are capable of sustaining long-term prosperity and resilience.

From our base in Scotland, GEFI has spent more than a decade convening dialogue across finance, government, academia, faith communities and civil society to explore these questions in practice. From the SDG Hive and Edinburgh Finance Declaration to the Path to COP and the Radical Old Idea series, our work has sought to reconnect modern finance with older traditions of stewardship, responsibility and long-term thinking. The Radical Old Idea emerged from a simple observation: many of the questions now being asked by financial institutions around purpose, trust, sustainability and societal legitimacy are not entirely new. They are questions earlier generations also wrestled with, including many of the thinkers of the Scottish Enlightenment.

Adam Smith remains central to those debates, though often in incomplete ways. Smith understood markets not as isolated mechanisms, but as social institutions shaped by moral sentiments, trust, justice and shared norms. Too often, modern interpretations of capitalism have remembered only one half of Smith's work while neglecting the wider ethical and institutional foundations upon which functioning markets depend. Revisiting Smith today is therefore not an exercise in nostalgia, nor an attempt to impose eighteenth-century answers onto twenty-first-century problems. Rather, it is an invitation to recover intellectual perspectives that may help us navigate an increasingly complex and interconnected global economy.

This unique publication brings together contributors from across finance, economics, policy, development, technology and faith traditions to explore these themes through multiple lenses. The aim is not to produce a single doctrine or ideological position, but to encourage a more honest and constructive conversation about the future purpose of markets, the responsibilities of institutions and the conditions required for long-term societal wellbeing.

As with our Glasgow COP26 publication - *The Wealth of Nations in the 21st Century* - our hope is that this collection of essays will similarly encourage both reflection and practical action. Our deep appreciation is extended to all contributors who helped this *Smith250* transcend a commemorative exercise into a wider conversation about how finance can respond to systemic challenges while remaining grounded in trust, stewardship and moral imagination. The task is not simply to reinterpret Adam Smith, but to ask what kind of economic system we are building and whether it is capable of enduring for generations to come.

Part I

Smith Revisited – The Legacy Reclaimed

Reclaiming Adam Smith: Trust, Institutions, and the Moral Foundations of Global Finance

By Dr Mahmoud Mohieldin

Dr Mahmoud Mohieldin

UN High-Level Climate Champion for Egypt

Dr. Mahmoud Mohieldin is an economist with more than 30 years of experience in international finance and development. He currently serves as the United Nations Special Envoy on Financing the 2030 Sustainable Development Agenda. Recently, he served as the UN High-Level Climate Champion for Egypt, and as Executive Director at the International Monetary Fund representing the Arab States and The Maldives. Previously, Dr. Mohieldin was the Minister of Investment of Egypt from 2004-2010, and afterwards served as the World Bank Group Senior Vice President for the 2030 Development Agenda, United Nations Relations and Partnerships.

Dr. Mohieldin held seats on several advisory and executive boards in the banking, research, academic and corporate sectors among others, including his role as chairman of the Africa chapter for the Glasgow Financial Alliance on Net Zero (GFANZ). He was a member of the Commission on Growth and Development and was selected a Young Global Leader of the World Economic Forum in 2005. Dr. Mohieldin is a Professor of Economics and Finance at the Faculty of Economics and Political Science in Cairo University and has been a member of its faculty for almost 30 years. In addition to that, he has held posts as a visiting Professor at several renowned Universities in Egypt, Korea, the UAE, the UK and the US.

Dr. Mohieldin holds a PhD in Economics from the University of Warwick, United Kingdom; an M.Sc. in Economics and Social Policy Analysis from the University of York, United Kingdom; a Diploma of Development Economics from the University of Warwick; and a B.Sc. in Economics from Cairo University. He has authored numerous publications and articles in leading journals in the fields of economics, finance, and sustainable development.

Global finance stands at an inflection point. Capital is abundant, yet confidence in the frameworks that govern it is increasingly scarce. Despite repeated international commitments, financing for the Sustainable Development Goals remains far below required levels. Climate commitments have weakened under political pressure, while sustainability-oriented investment has proved vulnerable to changing incentives.

The problem is therefore not simply a shortage of resources. It is a shortage of credible institutions capable of directing capital toward durable public purposes. Trust, in this article, refers to confidence that rules are stable, contracts are enforceable, disclosures are credible, burdens are fairly shared, and long-term commitments can survive political cycles. Institutional credibility in this context refers to the capacity of governance systems to enforce rules consistently, sustain long-term commitments, and maintain legitimacy across political and economic cycles. Where such trust is absent, capital becomes short-term, risk-averse, and socially fragmented.

This article argues that Adam Smith's moral philosophy aligns more closely with traditions of stewardship found across the Global South than with later laissez-faire interpretations commonly attributed to him. Reclaiming Smith in this way offers a stronger analytical and normative basis for reforming modern finance.

Reclaiming Smith: Moral Sentiments Before Markets. Adam Smith is often reduced to self-interest and the metaphor of the invisible hand. Yet this selective reading obscures the wider architecture of his thought. In *The Theory of Moral Sentiments*, Smith emphasised sympathy, moral judgment, and the disciplining role of the "impartial spectator".[1] Individuals in commercial society are not atomized maximisers, but social beings shaped by norms, reputation, and conscience.

1 Smith, Adam. 1759. *The Theory of Moral Sentiments*. London: A. Millar.

Most importantly, Smith described justice as the "main pillar" of society. Without justice, commercial exchange cannot remain stable or legitimate.[2] Even Smith's invocation of the invisible hand appears in a moral context rather than as a blanket defense of unregulated markets.

Nor was Smith indifferent to public authority. In *The Wealth of Nations*, he assigned the state essential responsibilities in justice, education, infrastructure, and public works that private incentives would underprovide.[3] The relevant policy distinction, therefore, is not markets versus states, but productive markets supported by capable institutions.

This point is reinforced by El-Dean and Mohieldin's work on competition policy in Egypt, which draws on Smith's enduring observation that people of the same trade rarely meet together without the conversation ending in "a conspiracy against the public" or some contrivance to raise prices. The policy implication is clear: even the father of free markets did not assume that markets function efficiently in the absence of effective rules. Rather, competitive markets require an institutional and regulatory framework capable of preventing collusion, protecting consumer welfare, and ensuring that private initiative serves public efficiency. This approach informed the formulation of Egypt's first competition law, enacted in 2005.[4]

The Institutional Pivot: Evidence from MENA Economists. A regional survey of economists found that 38 percent ranked institutional reform as the most important response to economic challenges, while 34 percent prioritised investment in human capital.[5] Respondents therefore placed institutional quality and productive capability ahead of narrow short-term market adjustments.

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2 Smith, Adam. 1759.

3 Smith, Adam. 1776. *An Inquiry into the Nature and Causes of the Wealth of Nations*. London: W. Strahan and T. Cadell.

4 Mohieldin, Mahmoud. 1996. "On Competition Policy: An Egyptian Perspective." Paper presented at the Conference on the Partnership Agreement between Egypt and the European Union, organized by the Faculty of Economics, Cairo University, and Friedrich Ebert Foundation, May. Published in *L'Egypte Contemporaine*, Nos. 441–442, LXXXXVIIième Année, 5–28, Janvier/Avril.

5 Mohieldin, Mahmoud, and Rana Hendy. 2019. *On Ideas and Economic Policy: A Survey of MENA Economists*. Working Paper No. 1346. Cairo: Economic Research Forum.

The same pattern appears in attitudes toward regulation and corporate conduct. Support for consumer protection and anti-trust laws reached 89.06 percent, while 77.5 percent recognised an important developmental role for corporate social responsibility.[6] These findings imply that economists operating in regions exposed to debt stress, unemployment pressures, and climate vulnerability do not view markets as self-correcting systems. They view them as institutional arrangements whose success depends on enforcement, fairness, competition, and legitimacy.

This perspective may be described as **architectural trust:** confidence generated when markets operate within credible public frameworks. Rather than a regional anomaly, it reflects a wider principle of political economy: capital is most productive where institutions are trusted, rules are predictable, and opportunity is broadly supported.

These institutional concerns are not confined to contemporary policy debates. Comparable ideas about obligation, legitimacy, and stewardship have long appeared across diverse intellectual traditions.

Civilisational Traditions of Stewardship. The institutional foundations of prosperity are not uniquely Western insights. Across the Global South, longstanding traditions have mostly understood wealth as inseparable from obligation.

Wealth carries duties. Islamic moral economy emphasises *amanah* (trusteeship): human beings are custodians rather than absolute owners of resources. The institution of *waqf* historically directed wealth toward education, health, and public welfare through durable endowments.[7]

Social cohesion sustains prosperity. Ibn Khaldun's concept of *asabiyyah* identifies solidarity as the basis of political order and economic vitality.[8] Where inequality erodes cohesion, institutions weaken and prosperity becomes fragile.[9] Ubuntu, associated with African philosophy, similarly

6 Mohieldin, Mahmoud, and Rana Hendy. 2019.

7 World Bank, and Islamic Development Bank. 2025. *Islamic Finance and the Climate Agenda.* Washington, DC, and Jeddah: World Bank and Islamic Development Bank.

8 Ibn Khaldun. 1967. *The Muqaddimah: An Introduction to History.* Translated by Franz Rosenthal. 2nd ed. Princeton, NJ: Princeton University Press.

9 Alexandre, Henrique Augusto. 2025. "A Phenomenological Approach to Ibn Khaldun's Concept of Group Feeling." *Thesis Eleven* 187 (1): 128–144.

places relational personhood at the center of value creation: individuals flourish through community rather than apart from it.[10]

Human welfare and nature are interdependent. Buen Vivir, developed in Latin American thought, rejects growth models that sever economic progress from ecological balance, treating wellbeing as harmony among people, institutions, and nature.[11]

Taken together, these traditions suggest that economies are not autonomous machines governed solely by price signals. They are social systems embedded in reciprocity, stewardship, and legitimacy.

Universal Opulence and the Contemporary Development Agenda. Smith's aspiration was not output alone but what he described as "universal opulence" extending to the lowest ranks of society (Smith 1776). This principle is morally adjacent to contemporary development goals centered on inclusion, dignity, and sustainability.[12]

Yet current financing gaps reveal how distant practice remains from that aspiration. Climate finance has expanded, but not at the scale required.[13] In climate-vulnerable regions such as MENA, institutional capacity is no longer a technocratic preference; it is a condition of resilience.[14]

If finance is to meet development and climate objectives, reform must focus not only on mobilizing more capital, but on strengthening the institutions able to channel capital into productive investment, adaptation, and social legitimacy.

10 Metz, Thaddeus. 2011. "Ubuntu as a Moral Theory and Human Rights in South Africa." *African Human Rights Law Journal* 11 (2): 532–559.

11 Bermúdez-Restrepo, Carolina, and Andrea Vaca-López. 2026. "Critical Contributions of Buen Vivir (Sumak Kawsay) as a Latin American Alternative to Global Sustainability." *Sustainability* 18 (2): 622.

12 United Nations. 2015. *Transforming Our World: The 2030 Agenda for Sustainable Development.* New York: United Nations.

13 Climate Policy Initiative. 2025. *Global Landscape of Climate Finance 2025.* San Francisco: Climate Policy Initiative.

14 World Bank. 2025. *Global Megatrends and Human Development in the Middle East and North Africa.* Washington, DC: World Bank.

The ESG Credibility Shock. The backlash against ESG labels illustrates the limits of branding without governance depth. When sustainability is treated primarily as marketing rather than embedded accountability, commitments become reversible under political or commercial pressure.[15, 16]

This does not undermine the underlying objectives of stewardship. It demonstrates that voluntary signaling alone is insufficient. Durable progress requires mandatory disclosure, comparable standards, regulatory consistency, competition policy, and long-horizon public investment. Recent advances in sustainability reporting standards are therefore significant because disclosure can institutionalise accountability.[17]

Implications for Global Financial Governance. If markets depend on institutional trust, then reform of global finance must move beyond narrow faith in deregulation or voluntary commitments. The central challenge is to build **strong and credible institutions at the global level** capable of channeling capital toward development, resilience, and shared prosperity. Domestic markets rely on courts, regulators, and public legitimacy. International markets similarly require rules-based institutions capable of coordinating action, reducing uncertainty, and sustaining confidence across borders.

First, reform the sovereign debt architecture. Current restructuring processes remain too slow, fragmented, and creditor-driven. A stronger and more credible international framework is needed to resolve debt distress predictably and fairly, preventing liquidity shocks from becoming prolonged development crises.

Second, strengthen multilateral development banks. Multilateral development banks are among the few institutions able to combine public mandates with financial leverage. Expanding their balance-sheet capacity, guarantee instruments, and concessional windows would allow them to play

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15 Reuters. 2025a. "Sustainable Funds Market Inflows Halve as ESG Falls Out of Favour." January 27, 2025.
16 Reuters. 2025b. "Fund Climate Group Drops Some Targets after U.S. Backlash." October 29, 2025.
17 IFRS Foundation. 2025. *Jurisdictional Profiles of the Adoption of ISSB Sustainability Disclosure Standards.* London: IFRS Foundation.

a larger stabilizing role in climate adaptation, infrastructure, and human development.

Third, reduce the cost of capital for developing countries. Many emerging and low-income economies face structurally higher borrowing costs unrelated to fundamentals. Credible global institutions can help address ratings biases, information asymmetries, and currency risks that widen financing gaps and deter investment.

Fourth, reinforce the global financial safety net. The international system requires stronger liquidity backstops to help countries absorb shocks without sacrificing long-term investment. Greater use of precautionary facilities, swap arrangements, and rechanneling of Special Drawing Rights would strengthen confidence during periods of stress.

Fifth, embed trusted sustainability standards. Comparable disclosure frameworks, transition taxonomies, and anti-greenwashing enforcement require credible international coordination. Without common standards, sustainable finance remains vulnerable to fragmentation, politicization, and loss of investor confidence.

The broader lesson is that global markets, like domestic markets, cannot function effectively on price signals alone. They depend on institutions that are trusted, rules that are predictable, and governance that is regarded as fair. The relevant choice is not between markets and institutions. It is between a fragmented international order that misallocates capital and a credible institutional order capable of directing finance toward long-term global goals.

Conclusion

Reclaiming Adam Smith for the twenty-first century requires disentangling his thought from later market fundamentalism. Smith was not a theorist of moral vacancy, but of justice, sympathy, and the institutional preconditions of prosperity.

Evidence from MENA economists and the wider traditions of the Global South point in the same direction: markets function best when grounded in stewardship, reciprocity, and capable public authority. The central challenge facing global finance is therefore not whether markets matter, but whether they are embedded in institutions strong enough to sustain trust.

The choice is no longer between markets and states. It is between shallow markets without legitimacy and embedded markets capable of delivering durable prosperity.

The Double Helix of Smith: Wealth and Sentiments

By Dr Robbie Mochrie

Dr Robbie Mochrie

Errorist In Residence, Library of Mistakes

Robbie Mochrie taught economics at Heriot-Watt University for 30 years until his retirement in 2026. As its Errorist in Residence, he currently delivers thematic programming and content development for the Library of Mistakes in Edinburgh, the original node of a growing global network of organisations for the study of financial and economic history. An expert on the history of economics, his interests span medieval economic theology, the development of Adam Smith's political economy and the development of economic ideas during the Great Depression. As a former executive director of the Association for the Study of Religion, Economics and Culture and chair of Jubilee Scotland, he has applied virtue ethics to problems of political economy including sovereign debt cancellation, sustainable finance and the public finance of education.

For their arguments to succeed, economists need to make them at the right time for people to notice of them. Too early, and they will be ignored. Too late, and they will seem to be latching on to a bandwagon.

Two hundred and fifty years ago, Adam Smith got his timing spectacularly right. Determined that his second book, *An Inquiry into the Nature and Causes of the Wealth of Nations*, should hit the mark, he spent time in London shortly before its publication. From conversations there, he became certain that he had been correct to argue that the political crisis affecting the American colonies would only resolve itself with the colonists sloughing off the yoke of British rule.

On 10th March 1776, the day after the book's publication, General Howe, the commander of the British occupying forces in Boston, with his troops hemmed in by the Patriots' artillery, gave the orders to withdraw from the city. Less than four months later, the 13 colonies joined together in their Declaration of Independence.

To reach the part of *The Wealth of Nations* in which Smith dealt with geopolitical matters of slavery, empire and colonialism, readers needed to navigate his explanation of the operation of economies in 18th century commercial societies. He concentrated on the role of productive capital, which he saw as being essential for increasing the productivity of labour and so wages and living standards. That accumulation of capital was characteristic of an advancing society displaying the *progress of opulence*, using Smith's key term. Investment managers reading Smith will find much to justify their role in society.

Writing when statesmen tended to believe that their countries' wealth could be measured by the stock of precious metals which it acquired from the so-called *mercantilist* policies of war, empire and managed trade, Smith argued that true wealth comes from the ability to produce goods. Increasing the stock of capital enabled specialisation – his *division of labour* – and so was essential for future prosperity by reducing the costs of production and increasing the *extent of the market* with lower prices increasing the demand for goods. We might think of globalisation as an extension of the principle of specialisation to value chains spanning countries.

This was much more than an interesting, insightful account of how markets might work. Three years after Smith published *The Wealth of Nations*, James Watt obtained the patents for the improvements to steam engines which would turn him into a millionaire. Smith, writing about Europe when it was still largely agrarian, with mechanisation dependent on water power, could only hint at the vast possibilities of industrialisation. There were of course, plenty of signs of them in Britain in the 18th century, with Smith noting many from his observations in Glasgow, where he was both a student and then a professor at the University, just as the city embarked on the century of frenetic growth which would turn it into the second city of Britain's global Empire.

For all these reasons, Smith, in writing *The Wealth of Nations* got his timing right for immediate impact and for influencing other economists. But he had even more powerful ideas which deserve to be celebrated today. We need to remember that in writing about political economy, Smith was a professional philosopher. Foundational to his arguments about the effect of specialisation, and in direct opposition to mercantilist thought, he argued that economies work best when people have the liberty to use whatever resources they can command as they wish.

Pause for a moment if you consider that last sentence to be an argument for an unfettered capitalism, red in tooth and claw. Throughout *The Wealth of Nations*, Smith deplored the abuse of economic power. He criticised the traditional practices of the trade guilds which managed Scottish burghs such as Kirkcaldy, the town in which he was born and to which he returned while writing *The Wealth of Nations*. In writing about Britain's imperial project with its granting of monopolies to private companies, such as the East India Company, he kept up a barrage of criticism. These vast trading companies effectively acted as sovereigns – even raising armies and entering into treaties. In the practice of empire, Smith saw very clearly how corruption enabled such economic power to suborn political power. Trading company officers and politicians benefited greatly from these arrangements, with others bearing great burdens. In the American colonies, the imposition of taxation to subsidise the imports of the East India Company sparked the disputes which ended in the American Revolution.

Important as liberty was to Smith, it was liberty for all, and not just for the wealthy and powerful. It was liberty to truck and barter, to invent and innovate, and to borrow and invest. Such liberty required strong institutions to preserve and extend it. The second volume of *The Wealth of Nations* all about the role of *sovereigns* – in today's language, the state and public institutions.

When Adam Smith taught his students at Glasgow, he began with natural philosophy, progressed to ethics, went on to jurisprudence, and ended with political economy. For that reason alone, it's a curious mistake to try and read *The Wealth of Nations* without using the complex social philosophy contained in his earlier *Theory of Moral Sentiments*, as necessary framing. With 17 years between the books' publication, Smith might reasonably have expected his readers already to be familiar with his theories of social relations and to understand them as being foundational for his analysis of commercial society.

Smith assumed that as social animals, people desire the esteem of their peers. In the context of *The Wealth of Nations*, that could be people working together in a pin factory, or the members of a trade guild or a profession or even a band of brigands. Smith argues that in our minds, we project how others will respond to our choices, anticipating the value which they will derive from esteem. Such a process might cause us to delay or avoid certain actions, while embracing others. It follows that commonly accepted standards of behaviour in any group of society are conventional and determined through shared beliefs.

For example, Glasgow's 18th century wealth came through the 'tobacco lords', who made vast fortunes from their activities in Britain's American and Caribbean colonies, selling a wide variety of manufactured goods, and importing sugar and tobacco. As plantation owners, they relied on slave labour, so that today their businesses would be screened out from any ESG investment framework. In his commitment to liberty, Adam Smith was therefore unrepresentative of the society in which he lived since it led him to oppose the use of slavery in the plantations, both on moral grounds and because he considered slave labour to be economically inefficient.

Smith's relevance for today comes largely from how he championed liberty of thought. Drawing back from the details of his social philosophy, Smith, following the French *philosophe*, Montesquieu, considered commerce to have important civilising effects. Currently, the best-known version of this argument comes from Deirdre McCloskey's work on *Bourgeois Virtues*, where she emphasised the importance of social and economic development in the Netherlands, which had been a much richer place than Scotland for several centuries, most obviously during its 17th century Golden Age. Observing the progress of commerce across the Netherlands, England and France, and associating it with increasing liberty of expression and action, Smith argued for the widespread adoption of such practices with progress of *manners* tending to lead to *progress of opulence*. He envisaged commercial society evolving so that its shared practices and institutions would enable both moral and physical progress.

In this, (borrowing a term which Maynard Keynes used about Franklin Roosevelt), Adam Smith was 'magnificently right'. Economic historians talk about the 'hockey stick', often showing how measures like income per person have changed over time. Almost everywhere, there is a long shaft, in which the pace of change is shown as glacial. Then, beginning about 1800 in Europe, there was a sudden acceleration, which has largely been sustained for more than 200 years, spreading worldwide through the processes of liberalisation and globalisation. The data captured in the blade of the hockey stick represent a vast transformation of possibilities: longer lives, vanishingly few infant deaths, much higher levels of education, fewer wars, more trade – and, perhaps summing this up, much greater liberty. We remember Adam Smith not because he predicted the details of how it would happen, but because he discerned these possibilities as they were starting to emerge. Enabling people to make much more sense of the world of the late 18th century, his vision of society was so rich and so profound that his ideas still shape our understanding of what might be possible when an economy functions according to his principles.

Smith Misread: How Capitalism Forgot Half His Work

to Adam Smith for inspiration. As evidence, Smith's analysis was important for Karl Marx, for Milton Friedman and for Maynard Keynes. Friedrich Hayek went so far as to call himself an 'old Scotch Whig' – although his sceptical tendencies led him to identify especially with Smith's contemporary, Adam Ferguson, professor of moral philosophy at the University of Edinburgh at the time when Smith wrote *The Wealth of Nations*. Quite simply, for almost all the great troublers of cosy consensus in economic thought, Smith has had much to say. There is, though, one obvious exception. Joseph Schumpeter, perhaps the only economist more erudite than Viner, argued in his magisterial *History of Economic Analysis* that Smith had tended to retard rather than advance progress in economic science, emphasising moral rather than empirical analysis. But Schumpeter's magisterial judgments, always delivered with crisp finality, were often idiosyncratic. Thinking about how economics was evolving as a discipline in the middle of the 20th century, he did not display much sympathy with the motivations which had driven other economists' work.

For economists, then, Smith has typically been the touchstone of performance. In the wider world, though, his reputation has waxed and waned over the last 250 years. *The Wealth of Nations* immediately won a strong reputation in the nascent USA because Smith had been such a strong supporter of independence. From that, we should realise that Smith was too great a thinker about society for his ideas simply to be domesticated and safely guarded by modern economists. At the 2023 celebrations of the tercentenary of his birth, the University of Glasgow remembered Smith as a great humanist. This year, the University will sponsor two major conferences, the first primarily for scholars in the humanities and the social sciences, and months later a conference specifically for economists.

For other social scientists, the best known modern interpretation of Smith among economists is at best two dimensional. In 1971, George Stigler, a capable historian of thought (if as idiosyncratic in his judgments as Joseph Schumpeter) defined Adam Smith's achievement as building 'a stupendous palace upon the granite of self-interest'. The year before, in what was effectively a manifesto for a new understanding of economics, Milton Friedman, a colleague of Stigler's at the University of Chicago, had written

"In a free-enterprise, private-property system, a corporate executive is an employee of the owners of the business. He has direct responsibility to his employers. That responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible while conforming to the basic rules of their society, both those embodied in law and those embodied in ethical custom."

Friedman continued his argument by pointing out that there are many types of organisation whose objectives will not involve maximising profits. He had nothing to say about some of the more troubling practices of finance, such as the concentration on managing quarterly earnings. Lastly, with the important recognition of the importance of 'ethical custom', he left space for organisations tempering their search for profits, perhaps recognising the risk to long-term value from reputational damage.

In the 1970s, Stigler and Friedman looked to Adam Smith essentially as cover for political arguments just as much as economic ones. Arguing against a consensus among policy makers and academic economists that government could manage the economy, they preferred the wisdom of crowds to the judgment of experts – and in this, they were indeed picking up on important elements of Smith's thought. The target of their arguments included technocratic economists who had trained in the shadow of Maynard Keynes, whose work in the 1920s and 1930s had necessarily engaged with the challenges of war, reconstruction, and economic recovery from the Great Depression. Keynes' economic theorising culminated in an effort in which no one else had succeeded: taking economics beyond the insights of Adam Smith. He saw his work as a generalisation of previous economic thought, necessary for economics to be useful in situations, such as the Great Depression, in which loss of confidence turning into sour despair might break Smith's invisible hand. For Friedman and Stigler, writing after Keynes' insights had helped to craft the reconstruction of Europe after 1945, enabling unprecedented prosperity, economists – and political leaders – needed to discard Keynes' faith in planners and rehabilitate Smith's trust in people. They believed that institutions for economic management had become excessively powerful and so had eroded the liberty needed to undergird continued progress.

We should remember that the Chicago interpretation of Smith emerged while the institutions for managing the international economic order were under great stress. The Bretton Woods system put in place to stabilise international finance flows after World War II was breaking down, largely because of inflationary pressures. As governments began to get used to the dollar losing value after the breaking of the peg to gold in 1971, political fallout from the Yom Kippur War of 1973 precipitated the First Oil Shock. That turned out to be a valuable spur for the emergence of Islamic finance, but in other countries, failures of macroeconomic management, domestically and internationally, led to a long period of economic adjustment, arguably lengthened by interventionist policies intended to maintain the use of existing economic capacity and limit unemployment. Milton and Rose Friedman collaborated on *Free to Choose*, a popularisation of their shared political belief in the radical liberalisation of the economy, believing that with liberty restored, there would be a quickening in the *progress of opulence*.

For the theorist of ideas Glory Liu, this approach to the economy largely emerged in Chicago. Stigler's interpretation of Smith's work provided it with a patina of tradition and continuity – essentially the sort of appeal to Smith's authority within economics as Viner had observed in the 1920s. For Friedman's and Stigler's (former) Chicago colleague, Deirdre McCloskey, this is a very 'thin' reading of Smith, which, failing to engage meaningfully with the social philosophy of *Theory of Moral Sentiments*, reduces *The Wealth of Nations* to an examination of self-interest driven economic efficiency. That narrowly defined self-interest could easily become self-love, for Smith one of the greatest vices, as Sheila Dow has reminded us. We would do well to remember that in advocating liberty, Smith concurred with Kant's categorical imperative, "So act that you treat humanity, whether in your own person or in the person of any other, always at the same time as an end, never merely as a means." (SEP)

For McCloskey, by exploring how we engage with others, Smith transcends the Chicago view that a single virtue, prudence or practical wisdom, is sufficient. In my own reading of *The Wealth of Nations*, it is easy to pick out roles for justice (important for centuries as the moral basis of exchange, including the long-standing ban on usury in Christian teaching), for courage (in undertaking any enterprise in which outcomes are not certain - with the inevitability of risk bearing compensated by the prospect of substantial returns), and for beneficence (recognising the needs of others and promoting them – in Christian terms, the virtue of love or charity). We might also argue that Smith's analysis is based on faith in people, presuming a general tendency to engage in discussion and act rationally, and hope that through the progress of opulence, social and economic conditions should continue to improve over time. Reading *Theory of Moral Sentiments* to frame The *Wealth of Nations* as justifying a form of capitalism which emphasises the importance of institutional guardrails to limit the abuse of power, we come to what was for Smith, working in the tradition of (Christian) Stoicism prevalent during the Enlightenment perhaps the indispensable virtue in a commercial society: temperance or the tendency to delay gratification.

Think about what capitalism requires. The ongoing accumulation of physical, organisational and intellectual capital typically compels an organisation to find a far greater quantity of financial capital than their founders are able, or willing, to commit to its success. On the other side of financial markets, individual investors typically lack the experience or knowledge to screen prospects. So, there is necessarily demand for specialists in capital allocation, whose business it to allocate funds for investment. As Smith realised, competition among market participants disciplines their behaviour, so that decentralised activity will often lead to better social outcomes than planning.

Such specialists of course need much more than practical skills. Every investment contract involves one party providing economic value now or pledging it in future, expecting to receive payments over time which make good their financial position. In reducing the scale of expenditure today, investment requires faith in the undertaker of the project and hope that returns will be sufficient compensation. In this ‘broad’ reading, *The Wealth of Nations* includes detailed exploration of the character qualities necessary for the effective functioning of a commercial society. We can easily take this as a foundation for investment practices which might support socially useful capital formation today.

The Return of Moral Sentiments

By Lord David Pitt-Watson

Lord David Pitt-Watson

Visiting Fellow at Cambridge Judge Business School

David is a leading thinker & practitioner in responsible investment, and serves as a Member of GEFI's Global Steering Group. Born & brought up in Scotland, he was co-founder, and CEO of Hermes Focus Funds & Equity Ownership Service. These became the largest responsible investment group of any fund manager in the world. Throughout his career he has been deeply involved in policy, particularly in the field of corporate governance and financial market regulation. He has led numerous initiatives to improve the performance of the financial system. He was appointed to the House of Lords in January 2026.

Adam Smith is credited as the founder of modern economics.

In his writing he is clear that *justice* sits at the heart of any effective economic system. As he noted in the Theory of Moral Sentiments (TMS). "If [justice] is removed, the great, the immense fabric of human society … must in a moment crumble into atoms".[1] That dramatic statement might lead us to ask why concepts of justice no longer seem to be part of what is researched or included as part of the economics curriculum. It might also encourage us to ask what insight we might gain if they were.

The Theory of Moral Sentiments was Smith's first work, and hence the foundation for the thinking which underpinned the more famous Wealth of Nations (WoN). It is helpful to review the logic of the WoN, and how it has been incorporated into our contemporary view of economics.

1 Smith, A. *Theory of Moral Sentiments*. Book 2, Chapter 2, Section 3

Smith begins with productivity. This is the first sentence of the Wealth of Nations; "the greatest improvements in the productive powers of labour… seem to have been the effects of the division of labour".[2] Shortly afterwards, Smith's observes that "that the division of labour is limited by the extent of the market".[3] For markets to work, Smith explains, we depend on the human urge to barter, where each trader seeks his own benefit. "it is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from regard to their own self-interest".[4] Thus, the Smithian argument for free trade, open markets and the acceptance that self interest can deliver positive results.

Those are profoundly important observations. And if one looks back over the 250 years since the Wealth of Nations was published, the expansion of markets and the extraordinary specialisation of labour has indeed brought huge benefits in terms of human prosperity. And that has been attributed to Smith's thinking, often facilitated by open competition, of which Smith was also an advocate.

What Smith doesn't focus on in the WoN, perhaps because he has already discussed it in the TMS, is the degree to which an agreed sense of justice is needed to underpin the trade essential for productivity and prosperity. That oversight is now ingrained in our thinking about economics. We rather take it for granted that if two island economies were to come into contact for the first time, and begin trading, that would be likely to benefit them both. History would tell a very different story. Ask the native peoples of Australia or the Americas whether the opening of trade with Europe was beneficial. Ask the same question of Chinese historians about the "unequal treaties". Both will tell you that contact and trade with the expanding European explorers and merchants was problematic, indeed in some cases catastrophic, not least because the terms of trade were unjust.

The notion that fair trade will emerge through the action of some invisible hand is far-fetched. Yet that is a common assumption of economics. For example, Robert Merton, the Nobel Prize winner, concludes there is little need to ask whether financial markets and institutions fulfil their

2 Smith, A. *Wealth of Nations*. Book 1, Chapter 1
3 Smith, A. *Wealth of Nations*. Book 1, Chapter 3
4 Smith, A. *Wealth of Nations*. Book 1, Chapter 2

purpose, because provided they are competitive, this "will cause the changes in institutional structure to evolve towards greater efficiency in the performance of the financial system".[5]

Of course, Smith recognised selfishness, but only as one human characteristic. He knew humanity also had social and moral sentiments. The assumption of humans being exclusively self-interested—an assumption which sits at the heart of modern economics and policy making, and is often attributed to Smith--would in fact have been an anathema to him; indeed the opening sentence of TMS explicitly contradicts the notion that humans can be understood as homo economicus, amoral agents, exclusively seeking our own benefit. Here is what Smith said, "However selfish man may be supposed there are evidently some principles in his nature that interest him in the fortune of others and render their happiness necessary to him though he derives nothing from it except the pleasure of seeing it".[6]

Smith's observation was right. Human beings are not homo economicus. To assume they are flies in the face of the evidence. Anthropologists have observed that no society anywhere is characterised exclusively by this sort of self-interest. So, one founding assumption of much of modern economics is both un-Smithian and incorrect. Logically we might conclude that any argument deriving from that assumption must ipso facto be suspect.

More constructively, we might like to think about the other aspects of Adam Smith's writing to which modern economics has turned a blind eye and ask ourselves how far they have been responsible for our prosperity, and how they might help us create a better, more productive economic system based on Smith's principles. Perhaps it is not competition which principally drives trade, specialisation and hence productivity, but equally if not more important, a common understanding of the role of justice, of fair trade, without which "the great, the immense fabric of human society ... must in a moment crumble into atoms".

5 Merton, Robert C., and Zvi Bodie. (1995) 'A Conceptual Framework for Analyzing the Financial Environment', *Harvard Business School Working Paper*, No. 95-062.

6 Smith, A. *Theory of Moral Sentiments*. Chapter 1.

What do we know about justice and fairness in economic systems, and where they sit relative to the world of "homo economicus"? First we can observe that they are profoundly important.

Consider the "ultimatum game". This is a simple experiment. Participants are divided into teams of two individuals, let's call them A and B. A receives $100. S/he can decide to give some of that money to B. B's only power is to insist that all the $100 be returned, and the team receives nothing. If A and B are homo economicus, A will offer a very small gift to B, and B will accept since s/he will be better off. But this is not what happens. Unless a substantial sum is offered B's sense of injustice will mean that they prefer to receive nothing.

So, let's be clear, and very explicit. Justice and hence ethics, are fundamental to any economic system. "Society may subsist, though not in the most comfortable state without beneficence (by which Smith means a moral obligation to act for others); but the prevalence of injustice must ultimately destroy it".[7] So, studying economics without considering what is a "just" trade is at best partial, at worst vacuous.

This then opens up a new area of inquiry. What sort of justice should underpin trade between individuals, organisations and countries? What forms of justice are ones which promote economic wellbeing? These are the questions which arise from any rounded reading of Adam Smith. But their study has been all but abandoned in the modern micro-economic curriculum. Institutional economist, and Nobel prize winner, Ronald Coase raised the alarm, noting the complexity of arrangements which underpin beneficial trade and saying that "the time has surely gone in which economists could analyse in great detail two individuals exchanging nuts for berries on the edge of the forest and then feel that their analysis of the process of exchange was complete".[8] Indeed the failure to consider real world conditions of trade led Coase to conclude that "most economists do not share my conception of the nature of our subject".[9]

7 Smith, A. *Theory of Moral Sentiments*. Book 2, Chapter 2, Section 3.

8 Coase, R. (1991) Nobel Prize lecture.

9 Coase. R. *The Firm.* the Market and the Law, p. 1.

That may be true for micro-economics. But it's not typically true for economic historians who try to assess the conditions which have allowed economies to grow. The problem for micro-economics is that they don't immediately conclude that markets and competition are the central element. Here is David Landes, in his review of why certain nations have prospered. He says the ideal growth-and-development society would be one which could master production techniques on the competitive frontier; impart knowledge to the young; choose people by merit, afford opportunity, allow people to enjoy the fruits of their labour.[10] That all sound quite credible. But these characteristics are not the inevitable consequence of markets and competition, rather they are societal and cultural.

Or here is another profoundly challenging economic study—not by an economist, but by an anthropologist, Joseph Hendrich. He wanted to compare the results of the ultimatum game, if it was played by people in the USA, or by a tribe in the Amazon, the Matsigenka. One might imagine the Amazonian tribe to be more generous. In fact, the Matsigenka offered a much lower proportion to their partners than did the Americans. And those lower amounts were more likely to be accepted. Here is how Hendrich explains it. "Matsigenka lack institutions for solving large scale cooperative dilemmas."[11] The experiment has been broadly repeated, with Hendrich claiming that prosperous societies are around the furthest from the "rational" benchmarks assumed by economics textbooks. To be clear, there is an *inverse* relationship between individual self-interest and prosperity.

According to Adam Smith, the purpose of economics, or political economy as he would have called it is to "provide a plentiful… subsistence for the people… and to supply the state with…a sufficient revenue for public services".[12] Sadly many have misinterpreted his work to suggest that a society characterise by homo economicus is what he would have advocated. That misrepresentation means that we build our thinking on a false assumption and fail to consider the critical elements of justice necessary for the trade and the scale which would allow the specialisation of labour which is the central plank of Adam Smith's worldview. The reason the Matsigenka

10 Landes, D. (1998) *The Wealth and Poverty of Nations*. Abacus, p. 217.
11 Hendrich, J. (2020) *The Weirdest People in the World*. Penguin, p. 289.
12 Smith, A. Book 4, Introduction.

are poor, is because they don't trade widely, because in turn they lack institutions for solving large scale cooperative dilemmas.

A shared sense of justice, of fairness, of values is an essential element for the trade, the specialisation, the productivity and the prosperity that Adam Smith wanted.

This is a call for all those researching economics. Take off the blinkers. To those studying other subjects—anthropology, history, sociology, philosophy, politics, ethics-- help us understand what are the other characteristics which help build a prosperous world. And to those developing economic policy, treat what you read in the textbooks with the greatest of caution. They do not represent the views of Adam Smith. And their assumptions do not reflect world they seek to represent and you seek to serve.

However selfish man may be supposed there are evidently some principles in his nature that interest him in the fortune of others and render their happiness necessary to him though he derives nothing from it except the pleasure of seeing it.

Global Smith: A Timeline of Influence and Divergence

By Dr Robbie Mochrie

Dr Robbie Mochrie
Errorist In Residence, Library of Mistakes

Robbie Mochrie taught economics at Heriot-Watt University for 30 years until his retirement in 2026. As its Errorist in Residence, he currently delivers thematic programming and content development for the Library of Mistakes in Edinburgh, the original node of a growing global network of organisations for the study of financial and economic history. An expert on the history of economics, his interests span medieval economic theology, the development of Adam Smith's political economy and the development of economic ideas during the Great Depression. As a former executive director of the Association for the Study of Religion, Economics and Culture and chair of Jubilee Scotland, he has applied virtue ethics to problems of political economy including sovereign debt cancellation, sustainable finance and the public finance of education.

Shortly before the 150th anniversary of *The Wealth of Nations*, Maynard Keynes wrote his 1924 memorial essay *Alfred Marshall*. Marshall had founded the 'Cambridge School' in economics, his career spanning the training of Neville and Maynard Keynes among many others. In his essay, Keynes assigned Smith a uniquely lofty position, that elevation entirely consistent with Marshall's gradual wrestling of economics from the 19th century Cambridge liberal tradition in which students followed courses in mathematics and moral sciences before their introduction to political economy. It also reflected Marshall's own justification of his contributions to economics, of surveying the stream of ideas developed by his predecessors, clarifying them and presenting them systematically, much as Smith had done with the ideas which had been current in the 18th century.

There is a clear intellectual lineage running from Keynes through Marshall and back to Smith. Marshall claimed to have begun work on his *Principles of Economics* by carefully reworking John Stuart Mill's 1848 *Principles of Political Economy* using the language of calculus. Mill's teacher was his father James, himself a student of Smith's first biographer, the moral philosopher Dugald Stewart.

While James Mill worked in England for almost the whole of his career, he boasted that his training had faithfully followed in the tradition of the Scottish Enlightenment, even as he developed and introduced utilitarian thought into economics. Mill's deep interest in India, now largely under British control, built on the analysis of Smith in *The Wealth of Nations* as well as the 18th century Scots historian of empire, William Robertson. The publication of his *History of India* in 1819 led the East India Company to appoint Mill to the position of Examiner of Correspondence, in which he managed the Company's correspondence with Indian princely states – the parts of India which the Company did not control directly. His son, John Stuart, trained to succeed his father in both logic and political economy, also held this post.

With Smith and the Mills, we see a liberal approach to Empire. Smith's opposition to slavery, although relatively advanced for the time, was consistent with arguments that the projection of European power globally was an opportunity for the gradual progress of all peoples. The Mills, through their advocacy of liberal reforms in India, sought to give practical effect to that approach. Following Smith's arguments about the value of free trade, Sir William Farquhar, important in the founding of Singapore as a free-trade entrepot beyond the reach of the East India Company, also contributed to this relatively benign version of Britain's imperial project.

However, there is a very different side. Scottish historian Tom Devine has argued that Scots held more than half of the managerial positions in the Empire, offering plenty of evidence of them being enthusiastic slave holders and traders, as well as harsh managers of indigenous peoples. This placid acceptance of an extractive and exploitative version of empire continued well into the 19th century. Close financial links between Scottish churches and denominations in the Confederate States of America which continued to embrace political racism led to a "Send Back the Money" campaign during the Civil War.

While John Stuart Mill wrote his *Principles of Political Economy* in the 1840s, breaking off to argue for land reform in Ireland during the Great Famine, the wealth generated in Britain's industrialisation was still to reach the working classes. Wages remained low and poverty, relieved primarily by migration, was endemic. Mill, like Smith, argued for education reform to increase productivity in wages. Through his wife Harriet Taylor (with whom he worked as an advocate of women's rights) he also engaged with the early socialists, arguing for the expansion of cooperative and mutual business models.

Alfred Marshall also had a considerable interest in improving the conditions of the poor working classes. Familiar with German philosophy, he was tersely dismissive of Marx's economics, but, especially in the 1890s, met repeatedly with the leaders of trade unions to understand better the concerns of organised labour. Those had little political voice in Britain until the rise of the Labour Party. In the USA, however, the emergence of progressive politics led to the 1912 *New Freedom* platform of the political scientist Woodrow Wilson, the first Southerner to be elected President since the Civil War, the last to insist on segregation in the Federal workforce, and a former President of Princeton University (the country's leading Presbyterian education institution, with close connections to Scotland during the Enlightenment, especially through James Monroe). Wilson worked with eminent corporate lawyer, Louis Brandeis, in developing his plans for anti-trust reform. He also appointed Brandeis to the Supreme Court in 1916. The "People's Lawyer" then spent more than 20 years handing down (often minority) opinions which tended to support the constitutional status of laws designed to provide a clearer balance between the interests of labour and capital. The Chicago School's claiming of Smith was in large part a response to this broad tradition of liberal reform.

By the middle of the 20th century, rather than the imperial project coming to maturity, Europe had destroyed its wealth and power in the two world wars – effectively the last wars between empires, with military action taking place on several continents. As a brilliant manager of war finances, architect of Britain's postwar financial reconstruction and a leading negotiator in the Bretton Woods conferences which led to the establishment of the IMF, the World Bank and the General Agreement on Trade and Tariffs, Maynard Keynes' career reached its scintillating conclusion, transcending the role of economic adviser. Enabling the creation of institutions to support the reconstruction of Europe, rebuild trade and manage the international financial system, Keynes stuck fast to the Cambridge interpretation of Smith's political economy, proposing the management structures which he believed would enable economic stability across (post) industrial societies.

As Europe rebuilt after World War II, letting go of its empires, the progressive liberalism of Brandeis, Franklin Roosevelt and Keynes had its moment of political dominance. The Chicago School's interpretation of *The Wealth of Nations* reflected the ongoing debate between classical liberals' advocacy of liberty of action and progressive liberalism's sweeping away of impediments to flourishing lives. Both approaches are clearly rooted in readings of Smith, with support for each varying with the state of economies. As early as 1947, with the huge success of *The Road to Serfdom* in the USA, Keynes' friend and intellectual sparring partner, Friedrich Hayek had the resources to establish the Mont-Pelerin Society, with Friedman and Stigler founding members. Claiming to offer a return to 19th century interpretations of Smith, this group quickly established a neo-liberal approach to economic thinking. Their ideas languished for nearly 30 years until dissatisfaction with Keynes-inspired economics created the space for a new conservatism, whose spirit was captured by President Reagan's quip, "The nine most terrifying words in the English language are 'I'm from the government and I'm here to help.'"

From the early 1980s, a wave of market liberalisation spread around the world. As countries of the global South opened to trade, the impulse of globalisation turned the specialisation which Smith had argued was necessary for the cost reductions enabling larger markets into complex international supply chains. The deindustrialisation of advanced economies was then a necessary precursor for rising incomes globally.

Where this neo-liberalism worked best was in its Smithian certainty that development comes from freedom. Its weakness was to assert that freedom is nothing more than liberty of action. The reason for that is simple, and perhaps goes back to Marshall's interpretation of Smith, which was the first to emphasise the role of efficiency rather than broader social and economic development. Keynes, in his own rebellion against Marshall, sought to breathe new life into Smith's ethically grounded political economy. Perhaps that is why we tend to think of Keynes especially at moments such as the Global Finance Crisis when the failings of market institutions become especially obvious. Only at such moments do we turn back to *The Wealth of Nations*, after learning once again that narrow efficiency will not deliver the progress of opulence.

Part II

ESG at a Crossroads

Recalibrating Responsible Finance: From Noise to Nuance

By Sasja Beslik

Sasja Beslik

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Sasja Beslik is a preeminent voice in global climate finance, recognised as the world's most influential person in green finance in 2020. Over a distinguished career at Nordea, Bank J. Safra Sarasin, and PFA, he has been a primary architect of the Nordic region's transformation toward sustainable investment. As the former Head of Sustainable Finance at Nordea, he launched the "Stars Fund"—the first sustainable fund to be named Sweden's best overall equity fund—proving that climate-aligned portfolios can outperform traditional benchmarks. Currently leading impact strategy in Japan, Beslik is spearheading the sustainable finance transformation of one of the world's largest capital markets, positioning Japan as an emerging leader in impact investment.

The landscape of responsible finance has become increasingly crowded, cluttered with acronyms, frameworks, and competing narratives that often obscure more than they illuminate. ESG ratings, impact metrics, sustainability-linked bonds, green taxonomies, and stakeholder capitalism have proliferated at such a pace that even seasoned practitioners struggle to distinguish signal from noise. What began as a genuine effort to align capital with values has, in many respects, devolved into a cacophony of competing standards, performative declarations, and allegations of greenwashing. Meanwhile, a fierce backlash has emerged, with critics from Wall Street to Capitol Hill questioning the legitimacy, effectiveness, and even the legality of ESG integration in investment decisions. The challenge facing responsible finance today is not merely technical complexity, but a crisis of credibility that threatens to undermine the entire enterprise.

The backlash against ESG has intensified dramatically, transforming from scattered criticism into organised political and legal opposition. Republican state officials have launched coordinated attacks, with states like Texas, Florida, and West Virginia divesting billions from asset managers deemed to be boycotting fossil fuel companies. Legislation has been introduced in multiple states to restrict the consideration of ESG factors in public pension investments, framing such considerations as violations of fiduciary duty. At the federal level, congressional hearings have subjected asset managers to hostile questioning about their ESG commitments, while regulatory proposals have been challenged and sometimes reversed. This backlash reflects several distinct concerns. Some critics argue that ESG represents an inappropriate politicization of capital markets, allowing asset managers to impose their political preferences on companies and ultimately on pensioners and savers who may not share those values. Others contend that ESG considerations distract from or conflict with fiduciary duties to maximise financial returns. Still others see ESG as a form of "woke capitalism" that undermines traditional industries, particularly energy companies, threatening jobs and economic growth in certain regions. There are also legitimate concerns about the lack of standardisation, the questionable predictive value of ESG ratings for financial performance, and the potential for greenwashing to mislead investors.

Not all criticism comes from the political right. Progressive critics argue that ESG has become a superficial branding exercise that allows corporations and investors to claim sustainability credentials without making fundamental changes to business models or capital allocation. They point to "sustainable" funds that hold fossil fuel companies, to net-zero commitments lacking credible transition plans, and to social washing that celebrates diversity initiatives while workers face precarious employment and stagnant wages. From this perspective, ESG serves primarily to defuse more radical demands for systemic change, offering the appearance of responsibility without its substance. The backlash has had real consequences. Some asset managers have begun softening their ESG rhetoric, withdrawing from climate-focused investor coalitions, or rebranding ESG initiatives with less politically charged language. The term "ESG" itself has become so contested that some practitioners advocate abandoning it entirely in favour of alternatives like "sustainable investing" or "long-term value creation." This defensive crouch, while perhaps tactically understandable, risks compounding the crisis of credibility by suggesting that responsible finance lacks conviction in its own principles.

A Path Forward Navigating beyond both the noise of proliferating frameworks and the polarisation of the backlash requires fundamental recalibration.

The first shift involves moving from universal frameworks toward contextual assessment. Rather than seeking single metrics applicable across all contexts, responsible finance must embrace that materiality and impact vary significantly across sectors and geographies. What constitutes responsible practice for a pharmaceutical company differs fundamentally from a real estate trust or community development institution. Effective assessment requires deep sectoral knowledge, understanding of local contexts, and appreciation for how different organisations create or destroy value across multiple dimensions.

The second shift involves moving from static snapshots toward dynamic trajectories. Current approaches assess organisations based on current state—current carbon footprint, current diversity metrics, current governance structures. Yet an organisation with poor current ESG profile but genuine commitment to rapid improvement may represent a better investment than one with good current profile but stagnating performance. Assessing trajectories requires understanding organisational change dynamics, evaluating management quality and commitment, and analysing whether strategies and incentives genuinely support stated objectives.

The third shift involves moving from input and output metrics toward genuine outcome and impact assessment. Much current measurement focuses on inputs—capital allocated to "sustainable" investments—or outputs—solar panels financed, diverse candidates hired. These often fail to capture whether activities produce meaningful outcomes. A billion dollars in green bonds sounds impressive, but if those bonds finance projects that would have occurred anyway or produce minimal incremental environmental benefit, actual impact may be negligible. Outcome assessment is inherently more difficult, requiring counterfactual thinking and patience with uncertainty, yet without this shift, responsible finance risks measuring activity rather than impact.

The fourth shift involves moving from siloed considerations of environmental, social, and governance factors toward integrated understanding of how these dimensions interact with financial performance and systemic risks. Climate change has profound social justice implications and creates systemic financial risks. Social inequality affects political stability and long-term economic growth. Governance failures manifest in environmental disasters and social harms. Effective responsible finance requires integrated analysis recognizing these interdependencies rather than treating E, S, and G as separate buckets scored independently. This integration also requires connecting firm-level analysis to system-level understanding. A company may optimise individual ESG performance while contributing to problematic systemic dynamics—externalizing environmental costs, concentrating market power, or lobbying against regulatory reforms benefiting broader social welfare. Responsible finance must assess not just individual organisational performance but contributions to or detraction from systemic health and resilience. Finally, the shift from noise to nuance requires greater intellectual humility and acknowledgment of uncertainty.

Current discourse often exhibits excessive confidence, with rating agencies producing precise numerical scores and asset managers making definitive impact claims. Yet assessing complex organisational performance across multiple dimensions in rapidly changing contexts involves substantial uncertainty and requires judgment calls on which reasonable people may disagree. Acknowledging this uncertainty is not weakness but a prerequisite for more honest and ultimately more effective practice. This humility should manifest in greater transparency about methodologies and limitations, more extensive use of ranges rather than false precision, and openness to revision as understanding evolves. It should encourage greater pluralism—recognizing that different approaches may each capture important aspects of complex reality, and that the field benefits from constructive dialogue among diverse viewpoints rather than premature convergence on a single dominant paradigm. Addressing the backlash requires neither capitulation to critics nor dismissal of legitimate concerns. It requires demonstrating that responsible finance, properly conceived, serves rather than conflicts with fiduciary duty by identifying material risks and opportunities that conventional analysis overlooks. It requires moving beyond simplistic narratives—whether celebratory or dismissive—toward honest assessment of what responsible finance can and cannot achieve. It requires acknowledging that values-based exclusions and financial materiality assessments, while both legitimate, serve different purposes and should not be conflated.

Recalibrating responsible finance from noise to nuance is not merely a technical challenge of improving measurement methodologies. It is fundamentally a shift in orientation—from desire for simple, universal answers toward comfort with complexity and context; from static assessment toward dynamic understanding; from measuring activity toward assessing impact; from siloed analysis toward integrated thinking; and from false certainty toward honest acknowledgment of what we know and do not. This recalibration will not make responsible finance easier or more marketable, but it will make it more honest and, ultimately, more effective in achieving its fundamental purpose: directing capital toward genuinely constructive ends in service of a more sustainable and equitable economy.

Only through such recalibration can responsible finance navigate the current crisis of credibility and fulfil its promise.

A Case for Optimism: ESG as Systems Change, Not Trend

By Arunma Oteh

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Ms. Oteh holds an MBA from Harvard Business School and a BSc, First Class Honors from the University of Nigeria, Nsukka. Ms Oteh has also served on several boards and has received several awards notably Nigeria's Officer of the Order of Niger (OON) National Honour. She was named one of PowerList's 2020 top 100 people of Black Heritage in the U.K., and one of Africa's 50 most influential African women by Forbes Africa in March 2020.

Capital Markets, Moral Discipline and the Financing of Global Prosperity

Over the last six years, we have been living through a period of profound global strain as geopolitical rivalries have intensified, trade fragmentation has deepened, and conflicts have remained a persistent factor. Policy uncertainty has risen to levels that UNCTAD recently described as the highest this century.[1] The World Bank has warned that global growth would slow to the weakest pace since 2008 outside outright global recessions.[2] All of this is happening at the precise moment when humanity must figure out how to finance some of the most demanding transitions in modern history: decarbonisation, climate adaptation, resilient infrastructure, food systems, healthcare, education, digital inclusion (including AI adoption), and the unfinished development agenda embodied in the Sustainable Development Goals (SDGs). The need for long-term capital has never been greater, yet the conditions for confidence, cooperation and patient investment have rarely been more fragile.

The latest UN assessment found that only 35 per cent of SDG targets with available data are on track or making moderate progress.[3] UNCTAD has put the annual financing gap for developing countries at $4.3 trillion, including roughly $1.8 trillion for climate action alone.[4] At the global level, the most conservative estimate of annual climate investment needs is about $6 trillion.[5] These are formidable sums, but they pale in comparison to the size of global capital markets and how much they can mobilise each year.

The World Federation of Exchanges reported that global equity market capitalisation reached $151.94 trillion at the end of 2025.[6] The OECD's *Global Debt Report* 2026 states that sovereign and corporate bond markets together

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1 UN Trade and Development (2025) *Trade and Development Foresights* 2025: *Under Pressure, Uncertainty Reshapes Global Economic Prospects*. Geneva: UNCTAD. https://unctad.org/system/files/official-document/gdsinf2025d1_en.pdf

2 World Bank (2025) *Global Economic Prospects, June* 2025. Washington, DC: World Bank. https://thedocs.worldbank.org/en/doc/8bf0b62ec6bcb886d97295ad930059e9-0050012025/original/GEP-June-2025.pdf

3 United Nations (2025) *The Sustainable Development Goals Report* 2025. New York: United Nations. https://unstats.un.org/sdgs/report/2025/The-Sustainable-Development-Goals-Report-2025.pdf

4 UN Trade and Development (2025) 'Financing for development: Reforming global systems to drive progress'. Geneva: UNCTAD. https://unctad.org/news/financing-development-reforming-global-systems-drive-progress

5 Climate Policy Initiative (2025) *Global Landscape of Climate Finance* 2025. London/San Francisco/Washington, DC: Climate Policy Initiative. https://www.climatepolicyinitiative.org/wp-content/uploads/2000/06/compressed_Global-Landscape-of-Climate-Finance-2025.pdf

6 World Federation of Exchanges (2026) 'New WFE Data: public markets post strong growth for 2025 despite geopolitical instability'. London: WFE, 27 February 2026. https://www.world-exchanges.org/news/articles/new-wfe-data-public-markets-post-strong-growth-2025-despite-geopolitical-instability

had a combined size of $109 trillion by the end of 2025.[7] Taken together, that is more than $260 trillion in public securities markets alone. Against that backdrop, the $4.3 trillion annual SDG financing gap amounts to roughly 1.6 per cent of those markets, while the lower-bound estimate of $6 trillion a year for the global climate transition is only about 2.3 per cent. That does not mean the money is sitting idle, waiting to be redeployed by sentiment or decree. It does, however, mean that the defining problem is not scarcity of capital, but the weakness of the channels, standards and incentives through which savings can be directed towards urgent human need.

To figure out this immense challenge, we can take inspiration from Adam Smith, who is unfortunately sometimes caricatured as a crude theorist of self-interest, as though he believed that private appetite alone could organise a prosperous society. But, before *The Wealth of Nations*, Smith gave us *The Theory of Moral Sentiments*, and at its core lies the idea of the impartial spectator: the inner moral standpoint from which we learn to judge our own conduct, moderate our passions and bring ourselves into line with standards that others could reasonably endorse.[8] Smith understood that flourishing commercial societies do not rest on appetite alone. They require discipline, justice, self-command and institutions that make conduct visible to scrutiny.

That insight is not peripheral to capital markets but actually goes to their very essence. Capital markets are often described in technical language as mechanisms for mobilising savings, allocating capital, providing liquidity and enabling price discovery. All of that is true, but it does not go far enough. Their deeper significance lies in their role as systems for organising trust among strangers. They permit households, pension funds, insurers, sovereigns, municipalities and firms to enter into long-term financial relationships without personal familiarity. They make it possible for capital to move across time, geography and uncertainty. That is an extraordinary social achievement, which depends not merely on contracts, but on

7 OECD (2026) *Global Debt Report 2026: Sustaining Debt Market Resilience Under Growing Pressure*. Paris: OECD Publishing. https://www.oecd.org/content/dam/oecd/en/publications/reports/2026/03/global-debt-report-2026_59d2d627/e9d80efd-en.pdf

8 Hanley, R. P. (2022, substantive revision) 'Adam Smith: His Life, Thought, and Legacy'. *Stanford Encyclopedia of Philosophy*. https://plato.stanford.edu/entries/smith-moral-political/

confidence that standards will be observed, information will be credible, and conduct will be subject to judgement.

In that sense, modern capital markets give institutional expression to Smith's moral philosophy. The impartial spectator does not survive in economic life only as private conscience. It is externalised in systems of disciplined scrutiny. It appears in the investor who demands transparency before committing funds; the analyst who tests assumptions; the auditor who polices embellishment; the exchange that imposes listing standards; the regulator that requires timely and comparable disclosure; and the board that knows its decisions will be judged not only by insiders but ultimately by the wider market. In these markets, conduct is observed, assessed and priced. In them, Smith's moral world is institutionalised.

This is why capital markets matter so greatly to the public good. They do not merely raise money; they impose discipline. A company that seeks long-term access to equity or debt investors cannot rely indefinitely on charm, connections, or rose-tinted projections. It must explain itself to outsiders, and disclose its risks, governance, ownership, strategy, and financial performance. Similarly, a sovereign that expects repeated access to debt markets must do the same through prudent debt management, coherent communication and institutional seriousness. And, a municipality or infrastructure vehicle that hopes to attract long-term capital must demonstrate project discipline, revenue visibility and repayment capacity. In other words, credibility lowers the cost of capital while sloppiness raises it.

Importantly, markets do not become trustworthy by accident, nor can they rely on voluntary virtue alone. They require a framework in which disclosure is credible, rights are protected, and abuse is constrained and punished. Elements such as prospectus rules, listing requirements, accounting standards, audit oversight, continuous disclosure obligations, beneficial ownership transparency, market abuse regimes, related-party transaction rules, insolvency frameworks and credible enforcement determine whether investors can distinguish strong issuers from weak ones, whether risks are discoverable before losses crystallise, and whether capital can be allocated on the basis of evidence rather than narrative. Strong regulation shapes behaviour even before capital is raised. It compels firms to strengthen internal controls, improve board oversight, clarify ownership structures, formalise reporting lines and treat minority investors more fairly. It encourages sovereigns and public entities to improve fiscal transparency, debt management and policy signalling. In Smithian terms, regulation helps create the conditions under which liberty can coexist with discipline and commercial dynamism with public trust.

Additionally, investor discipline builds on this regulatory foundation. Put differently, regulation sets the floor and investors provide the continuous test above that floor. Equity investors assess management quality, strategic coherence, governance standards and capital allocation discipline. Bond investors scrutinise leverage, liquidity, refinancing risk, covenant protection and the reliability of disclosure. Institutional investors, underwriters, auditors, research analysts and rating agencies together form a wider ecology of judgement. Because market access is not a one-off event, issuers that communicate clearly, govern prudently and perform consistently are rewarded with tighter spreads, stronger valuations, broader demand and greater flexibility. Those who do not are penalised. This process is often described in technical language, but it is also moral in substance: conduct is repeatedly subjected to external evaluation, shaping financial outcomes.

This matters enormously in the context of the global transition. Financing decarbonisation and climate resilience requires capital that is not only very large in scale but patient in tenor. Renewable generation, power grids, storage, transport systems, water infrastructure, industrial decarbonisation and adaptation projects involve substantial upfront expenditure with returns realised over many years. Such needs cannot be adequately financed through annual public budgets alone and require deep debt markets, functioning equity markets, credible project finance structures, and a domestic institutional investor base capable of holding long-duration assets. They also require better information as capital does not flow simply because the need is great. It flows, instead, when opportunity is intelligible, and trust is justified. That is why high-quality financial and sustainability disclosure is a precondition for financing it at scale.

The same logic applies to the broader development agenda. Too much of the global conversation still approaches development finance as though the answer lies mainly in aid, concessional flows or public expenditure. Those remain important, especially in fragile and low-income settings, but they are not sufficient to the magnitude of the challenge, particularly in an environment of globally declining official development assistance. Expanding global prosperity will require domestic and international capital markets to do far more of the financing for infrastructure, housing, agriculture, logistics, healthcare, education, and digital connectivity. That means creating pipelines of investable opportunities; strengthening legal and regulatory frameworks; improving project preparation; and developing local-currency bond markets so that long-term assets are not financed through destabilising currency mismatches. It also means deepening the pension and insurance sectors so that national savings can support national development.

Africa illustrates the point clearly. OECD data show that African companies have accounted for only about 1 per cent of the total value of equity raised globally since 2000, while Africa still represents only about 1 per cent of global sovereign bonds despite accounting for roughly 3 per cent of global GDP.[9] Where domestic bond markets remain thin, governments typically crowd out the private sector, further worsening the investment gaps. Additionally, in underdeveloped equity markets, firms struggle to secure patient growth capital; and where pension systems are shallow, local savings are not fully mobilised for domestic transformation. Better capital markets will not solve all of these developmental challenges, but they would materially improve the ability of African economies to finance industrialisation, infrastructure, innovation and resilience on more sustainable terms.

None of this requires romanticising finance. Smith certainly did not. He understood the power of commercial society, but he also understood its moral hazards. Markets can reward appearance over substance, or encourage short-termism, and become detached from productive purpose. That is precisely why the interaction between regulation and investor discipline is so valuable. Regulation without scrutiny can become procedural, and scrutiny without regulation can become opportunistic or destabilising. Together, however, they create something more durable: a system in which freedom is bound by standards, ambition is tested by evidence, and capital is more likely to serve productive ends.

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9 OECD (2025) *Africa Capital Markets Report* 2025. Paris: OECD Publishing. https://www.oecd.org/content/dam/oecd/en/publications/reports/2025/11/africa-capital-markets-report-2025_a973e07d/7d26e1d3-en.pdf

That is how capital markets should be understood: as part of the institutional machinery of prosperity. At their best, they do not merely allocate money; they cultivate standards, reward seriousness, punish concealment and widen the range of actors capable of financing the future. In an age when the world must fund both the global transition and the unfinished work of development, these well-regulated markets are among the most sophisticated institutional expressions of Adam Smith's enduring ideas.

Purpose Alongside Profit: Stewardship in the Age of Systemic Risk

By Ruth Bryson

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When Adam Smith wrote the *Wealth of Nations* in 1776, the world was at the cusp of major economic change. It was the dawn of the Industrial Revolution and the year of the US Declaration of Independence. Smith advocated for an economy where companies were managed prudently and governments intervened in markets where needed to correct market failures in the interest of public good – a form of what we would call 'stewardship' in a modern context.

Today, artificial intelligence and global challenges like climate breakdown are similarly accelerating transformation, against a challenging background of geopolitical tension and economic instability. The key difference, however, compared to Smith's day is how much more closely connected the world and the financial system have become.

It's an age of systemic risk – where failure in one area could lead to the breakdown of the entire system.[1] This requires a different approach to stewardship where – rather than governments or companies acting alone – companies work together with government and civil society, in a way that carefully balances purpose and profit.

Systemic risks and stewardship

Systemic risks are undiversifiable risks that can impact entire markets or economic systems through complex interconnections, potentially triggering chain reactions across multiple sectors and undermining overall market growth.[2]

Investors can be hesitant to manage systemic risk due to seeing it as a non-financial risk and confusion around interpretation of fiduciary duty. However, financial services are especially vulnerable to systemic risks due to diversified global portfolios and markets often overlooking the potential material risks until they arise, as seen in recent oil price shocks. This creates a financial and fiduciary imperative to safeguard the viability of global financial, environmental and societal systems.[3]

Stewardship codes in multiple jurisdictions now expect systemic stewardship, not just company-level oversight.[4] For example, the UK Financial Reporting Council's Stewardship Code 2026 expects signatories to "identify and respond to market-wide and systemic risks to promote a well-functioning financial system".[5]

Investors will have to tailor their approach to local legal and political realities, but anchoring systemic stewardship in financial materiality and

1 The Systemic Risk Centre (2026) *Systemic Risk*. Available at: https://www.systemicrisk.ac.uk/systemic-risk

2 UKSIF, Scottish Widows and Canbury (2025) *Systemic Risks: a Framework for Portfolio Resilience*. Available at: https://uksif.org/systemic-risks-a-framework-for-portfolio-resilience/

3 Railpen (2025) *Systemic Stewardship: The Financially Material Imperative*. Available at: https://www.railpen.com/insights/reports/systemic-stewardship-the-financially-material-imperative/

4 Railpen (2025)

5 Financial Reporting Council (2025) *UK Stewardship Code 2026*. Available at: https://www.frc.org.uk/library/standards-codes-policy/stewardship/uk-stewardship-code/

beneficiary outcomes can help withstand any challenges these might present.

Operating with purpose and a responsibility to wider society

Because systemic risks affect the whole market, no single actor can address systemic risks effectively alone.[6] Rather than trying to prevent crises, the best way to manage systemic risk is to strengthen the system's resilience.[7] That requires leaders from government, business and civil society to work together.[8]

Drawing on a modern interpretation of Adam Smith's moral and economic thought, this means companies operating profitably while considering how their actions contribute to the resilience of the wider economy and society.

Asset owners are well placed to lead on systemic stewardship within the investment chain[9] due to their long-term investment horizons. This is certainly the case for Royal London. As a customer-owned life, pensions and investment company, we have a responsibility to drive enduring benefit for our customers and their families.

This includes playing our part in tackling the systemic risks of climate change, as we set out in our Climate Transition Plan in 2025.[10]

Asset owners can also use their expertise to help wider society. For example, as part of our Changemakers programme, Royal London has helped social enterprises to scale up ideas that help to build financial resilience or support a fair transition to a more sustainable world.

Investing for growth to build resilient, shared prosperity

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6 UKSIF, Scottish Widows and Canbury (2025)

7 Daniellson, J. and Macrae, R. (2025) *Five Systemic Threats and What to do About Them.* Available at: https://www.suerf.org/publications/suerf-policy-notes-and-briefs/five-systemic-threats-and-what-to-do-about-them/

8 Business in the Community (2025) *Creating a Future Ready Economy.* Available at: https://www.bitc.org.uk/report/creating-a-future-ready-economy/

9 UKSIF, Scottish Widows and Canbury (2025)

10 Royal London (2026) *Royal London Annual Report and Accounts* 2025. Available at: https://www.royallondon.com/siteassets/site-docs/about-us/annual-reports/annual-report-and-accounts-2025-rl.pdf

Effective stewardship promotes growth, while minimising long-term risks. Smith's view that growth leads to "universal opulence" for society still holds true today. The more the economy grows, the more resources there are to strengthen public finances and services, the more opportunities for the workforce and the lower the likelihood of political tension (Daniellson, J and Macrae, R, 2025). Growth does not, however, need to come at the expense of acting responsibly. Tackling our biggest social and environmental problems creates opportunities to drive economic growth in ways that build resilient, shared prosperity (Business in the Community, 2025).

Voluntary co-operation remains a key engine of economic prosperity and social good. One example is the UK's Mansion House Accord.[11] Signatories pledge to invest 10% of their workplace pension portfolios in private markets by 2030, with at least 5% (half) allocated to the UK to support domestic economic growth. The Accord aims to secure better financial outcomes for pensions savers, boost investment in UK growth sectors such as science and technology and support greater energy security through investment in clean energy. Royal Lon don signed the Accord and already meets its requirements through investments in key UK sectors such as social housing, care homes and life sciences labs. Acquiring infrastructure manager Dalmore Capital in 2025 shows our commitment to further diversifying our investments into UK infrastructure.

The importance of policy advocacy

In 1776, Smith believed that policy certainty is needed to enable growth, but viewed companies engaging with government as potentially conspiring to manipulate government for their own benefit. However, today the state is much more involved in the economy, with higher public spending[12] and more regulation. This means managing systemic risks needs government and investors to work together to help create the right conditions for investment.

11 HM Treasury (2025) *Pension Schemes Back British Growth*. Available at: https://www.gov.uk/government/news/pension-schemes-back-british-growth
12 Lanskey, L. and O'Loughnan, C. (2023) 300 *Years of UK Public Finance Data*. Available at: https://articles.obr.uk/300-years-of-uk-public-finance-data/index.html

Companies rely on government policy certainty to be able to plan investments and tackle environmental and societal issues while remaining profitable. On the other hand, governments rely on investors to highlight barriers that prevent them from addressing systemic risks, so that appropriate policy incentives can be put in place.[13]

An example of this is the energy transition, which requires transformation of most industries and switching to new technologies. Government incentives are needed to make innovation in low-carbon technologies economically viable and to change the nature of energy demand.[14] Policymakers therefore need companies to advocate for the measures which would effectively change economic incentives and the competitive environment in ways that enable the transition.

For policy advocacy to be successful, companies need to use their political capital wisely. Companies should engage where they have most insight and expertise.[15] For Royal London, our greatest impact can be through engaging with UK policymakers on issues that affect our customers or sectors we play a significant role in as an investor. For example, addressing barriers to institutional investment in renewable energy infrastructure, or promoting a pensions system that focuses on long-term value for customers over short-term cost. As politics fragments, it's even more important for companies to be aware of the external political environment and how they can have the most impact.[16]

13 UKSIF, Scottish Widows and Canbury (2025)
14 Walkate, H. (2026) *What's The Story: Should Investors Flip the Script on the Energy Transition.* Available at: https://www.ecgi.global/publications/blog/whats-the-story-should-investors-flip-the-script-regarding-the-energy-transition
15 UKSIF, Scottish Widows and Canbury (2025)
16 Daniellson, J. and Macrae, R. (2025)

Setting robust expectations for the companies we invest in

In his earlier work, *Theory of Moral Sentiments*,[17] Smith described an "impartial spectator" that guides individuals to act according to what a dispassionate third party would approve of. The equivalent for financial institutions today is our fiduciary duty to invest in a way that serves the best interests of our customers. This means financial institutions should set clear expectations for companies on strong governance and ethical leadership, that promote resilience and long-term value. We can do this through engaging with the companies we invest in and exercising our shareholder rights.

Our asset manager, Royal London Asset Management (RLAM), actively engages with the companies we invest in. As well as exercising our shareholder rights, RLAM sets clear expectations on systemic risks. For example, promoting sustainability and ethics in the evolution of artificial intelligence,[18] and how companies can adapt to climate change in a way that delivers fair outcomes for people and the planet.[19]

Working together with investee companies to share expertise can be an effective way to bring about system change – such as RLAM supporting SSE in its Just Transition Strategy.[20] Engaging with sectors that are materially exposed to systemic risk, perhaps in collaboration with another investor, can help to focus resources, increase investors' abilities to support solutions across industries and identify asks for policy advocacy.[21] An example is

17 Smith, A. (1759) *Theory of Moral Sentiments.*
18 Royal London Asset Management (2025) *Responsible AI isn't Optional, it is Essential.* Available at: https://www.rlam.com/uk/intermediaries/our-views/2025/responsible-ai-isnt-optional-it-is-essential/
19 Royal London Asset Management (2025) *Responsible Investment: Just Adaptation Expectations.* Available at: https://www.rlam.com/uk/intermediaries/our-views/2025/responsible-investment-just-adaptation-investor-expectations/
20 Royal London Asset Management (2023) *Royal London Asset Management Supports SSE's Just Transition Report.* Available at: https://www.rlam.com/press-centre/2023/royal-london-asset-management-supports-sses-just-transition-report/
21 Net-Zero Asset Owners Alliance (2022) *The Future of Investor Engagement: A Call for Systematic Stewardship to Address Systemic Climate Risk.* Available at: https://www.unepfi.org/industries/the-future-of-investor-engagement-a-call-for-systematic-stewardship-to-address-systemic-climate-risk/

RLAM's work with Border to Coast, setting expectations for how the banking sector should transition to net zero while benefiting wider society.[22]

Diversification in business models enables resilience

While we can't diversify systemic risks away through our investments, encouraging diverse business models helps economies absorb shocks.[23] To be good stewards, we should encourage competition in the markets we operate in. This is why Royal London continues to advocate for customer-owned business in financial services - to ensure customers have an alternative to shareholder-owned firms which dominate the sector.

Conclusion

In an age of systemic risk we need to adapt our approach to stewardship, with government, business, and civil society working together rather than acting in silos. If we shape enabling government policy frameworks, operate responsibly with clear expectations for the companies we invest in and support a competitive economy, we will strengthen the system's ability to withstand shocks. By considering purpose alongside profit we can create a more resilient economy and long-term value for our customers and society.

22 Royal London Asset Management (2024) *Just Transition Update: Investor Expectations for the Banking Sector.* Available at: https://www.rlam.com/uk/intermediaries/our-views/2024/just-transition-in-banking/
23 Daniellson, J. and Macrae, R. (2025)

Markets Unmoored: Capital, Inequality, and Moral Drift

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"It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest"

Adam Smith never married. His household was managed by his mother, who predeceased him by only six years, and experience of the butcher, brewer, or baker was therefore likely to have been mostly hers. In my mind, the tradesman to whom the passage refers is named Mr Cuthill, after the excellent Edinburgh butcher who served my own mother for many years. From the perspective of 2026, we might imagine a conversation between Cuthill and Mrs Smith as follows.

Mrs Smith *Good morning, Mr Cuthill. How are your algorithms?*

Cuthill *Thank you, Mrs Smith, the algorithms are very well. In fact, one of them was reminding me how much Mr Smith enjoyed the beef you bought a couple of weeks ago. Today I have a very nice piece of meat from the same supplier.*

Mrs Smith *Good news, Mr Cuthill. Especially since Adam Ferguson and David Hume are coming to dinner tonight, I could roast a joint for them all. With such fine fare, they will be able to sort out the foundations of sociology and moral philosophy as well as the principles of economics*"

Smith was right to observe that the meals which so advanced the Scottish Enlightenment did not originate in 'the benevolence of the butcher.' But the butcher who provided them was a skilled artisan, whose activity reflected the core attributes of the professional - the knowledge (that distinguishes the short rib from the entrecote), the practice of apprenticeship (acquiring the skills of cutting and preparation), and the ethics specific to the craft of butchery. Self-interest was present in his shop, to be sure, but never overriding; in the world in which Smith operated, the transactional and the social relationship were bound together. And this interrelation was fundamental to Smith's thought.

Yet Adam Smith is best known - especially among those who have not read any of his work - for his glorification of unrestrained markets and unqualified greed. Nineteenth-century German scholars puzzled over "Das Adam Smith Problem". How could the emphasis on sympathy, key to *The Theory of Moral Sentiments*, be reconciled with the economics of *The Wealth of Nations*? By the first half of the twentieth century, few in the Anglo-Saxon world perceived a problem - the two were interacting strands of Smith's analysis, as the dialogue in Cuthills would have demonstrated. But Smith's reputation took a different course after the rise of right-wing economic thought beginning in the 1970s.

This new direction in economic thinking may be seen as a reaction to the social movements of the 1960s, whose manifestations had ranged from the miniskirt to the student revolts of 1968, and a recognition of the end of political agreement on a centrist consensus which had had linked Britain's welfare state, France's trente glorieuses, and America's broad reconciliation to the policies of the New Deal. The Powell memorandum, written for the

American Chamber of Commerce by eminent lawyer and future Supreme Court justice Lewis Powell, urged systematic support for academic research favourable to business. Institutions such as the Heritage Foundation and the Cato Institute were established, and the Olin Foundation supported the 'law and economics' movement, which framed much subsequent debate about the nature and role of the business corporation.

The economics department of the University of Chicago became an intellectual hub for these developments, led by Milton Friedman and George Stigler, both awarded Nobel Prizes for their contributions to economics. Adam Smith was conscripted to their cause, as Glory Liu has recently documented extensively. She reports Friedman's observation that "But for the accident of having been born in the wrong century, Smith would undoubtedly have been a Distinguished Service Professor at the University of Chicago."[1] And that at a Scottish ceremony to celebrate the 200th anniversary of the publication of *The Wealth of Nations*, Stigler announced that 'I bring you greetings from Adam Smith, who is alive and well and living in Chicago.'[2]

The association between Smith and the aggressive free market economics of the modern Chicago School is probably the primary reason why the two most widely known quotations from *The Wealth of Nations* are the 'not from benevolence' observation with which this essay began and the metaphor of 'the invisible hand.' In 2026, it is well worth observing that the invisible hand makes its appearance, if that is the right word, in a discourse on tariffs. Smith argues that tariffs, while mostly undesirable, are also of limited economic significance because of home-country bias. Merchants mostly prefer the security and reliability of known and trusted suppliers in the domestic economy. (We might recall that in Smith's world there were no telephones, trains or steamships, far less automobiles or aeroplanes.)

Thus, Smith wrote "*Upon equal, or nearly equal profits, every wholesale merchant naturally prefers the home trade to the foreign trade of consumption, and the foreign trade of consumption to the carrying trade. In the home trade, his capital is never so long out of his sight as it frequently is in the foreign trade of consumption. He can know better the character and situation*

1 Liu, G., *Adam Smith's America: How a Scottish Philosopher Became an Icon of American Capitalism* (Princeton University Press, 2022)
2 Quoted in Meek, R., *Smith, Marx and After* (Chapman and Hall, 1977)

of the persons whom he trusts; and if he should happen to be deceived, he knows better the laws of the country from which he must seek redress".[3] In the analysis of tariffs, as in the butcher's shop, the transactional and the social relationship were bound together. And this interrelation was again fundamental to Smith's thought.

In Smith's framing, the invisible hand is less an agent of the greedy individual than a contributor to spontaneous order. Adam Ferguson, Smith's frequent dinner companion, wrote of 'institutions which are the result of human action, but not the execution of any human design".[4] These thinkers of the Scottish Enlightenment were groping towards a theory of evolution (in human as well as natural affairs) that would only be fully realised in the following century. And it is its evolutionary character - the freedom to experiment, associated with a process which ends failed experiment and imitates and reproduces the successful technological and organisational innovation - which is the essential strength of the market economy.

Yet for Friedman and the Chicago boys, the power of the market economy was a celebration of the motivational power of greed. Friedman's 1970 essay in the *New York Times* magazine - *The Social Responsibility of Business is to Maximise its Profits* - represented a milestone in the rightward turn of economic thought at that time, and is widely referred to even today. In 1976, Michael Jensen and William Meckling described the firm as 'a nexus of contracts'.[5] The transactional relationship was not just dominant - it was all there was. And this framework has been the basis of the 'law and economics' concept of the corporation until the present day.

This nexus of contracts was consistent with Friedman's thought. He began from the assertion that '*a corporate executive is an employee of the owners of the business. He has direct responsibility to his employers. That responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible*'.[6]

3 Smith (1776)
4 Ferguson (1767)
5 Jensen and Meckling., 'Theory of the Firm: Management Behavior, Agency Costs and Ownership Structure', *Journal of Financial Economics* 3 (1976)
6 Friedman (1970)

But the corporate executive is not an employee of the owners of the business. He or she is an employee of the corporation. This point is fundamental. The concept of corporate personality is central to corporate law everywhere: the corporation makes contracts and owns property in its own right, not on behalf of its executives or shareholders. Further, modern English law is clear that 'shareholders are not, in the eye of the law, part owners of the undertaking.' American law, which in this context largely means Delaware law, allows more ambiguity.

But any reference to the wishes of shareholders raises the question of what it means 'to conduct the business in accordance with (the shareholders) desires'. If we could assume that these desires are exclusively financial and that the stock market consistently reflects the best estimate of the discounted (at an appropriately risk-adjusted rate) value of shareholders' anticipated entitlements, the issue of the different plans, motives and time horizons of shareholders could be easily resolved. But it is obvious that the desires of a representative day trader or arbitrageur are not identical to those of a pension fund or educational endowment. How are executives/boards to ascertain, far less resolve, these divergent desires of corporate investors?

In the time of Adam Smith, of course, there were very few corporations - those that existed, like the East India Company, which Smith, with considerable justification despised, came into being only through a royal charter or a specific Act of Parliament. The butcher, baker and brewer were individuals or partnerships, not corporations. And Smith was sceptical of corporations in general. (He was sceptical of many things, especially Oxford professors).

Thus he wrote. "*The directors of such companies, however, being the managers rather of other people's money than of their own, it cannot well be expected that they should watch over it with the same anxious vigilance with which the partners in a private copartnery frequently watch over their own. Like the stewards of a rich man, they are apt to consider attention to small matters as not for their master's honour, and very easily give themselves a dispensation* *from having it. Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company.*"[7]

Here again, Smith emphasises the interrelation of the social and the transactional. And he anticipates a further, central issue. Corporations are dominated by powerful groups of executives. The negligence and profusion revealed in the 2008 financial crisis were practised by the senior managers of banks. And the object - and certainly the result - of these practices was not the enrichment of the shareholders of banks but the enrichment of their executives. That crisis gravely undermined the legitimacy of the large business corporation. And perhaps such loss of legitimacy was an inevitable outcome of the shift I have described in the way business now represents itself.

No recent event illustrates that erosion of legitimacy more clearly than the recent legal case of *Kaley v Meta.* The plaintiff successfully claimed that her mental health had been damaged by her addiction to social media, especially Instagram. The jury awarded punitive damages because of the 'malice, oppression and fraud ' of the defendants. The recent phenomenon of 'love the product, hate the producer' has no clearer exemplification. Facebook (Meta) and Google (Alphabet, a co-defendant in the Kaley case) have far more customers than any business in history. And yet the corporations which provide these irresistible services are greatly disliked. Especially by Californian jurors.

The year of publication of *The Wealth of Nations* was also the year of the Declaration of Independence, and as a result, Californian legal precedents no longer have much resonance in Scotland. Otherwise, Mr Cuthill's algorithms would risk arraignment in Scotland's Court of Session, a short walk up High Street from Smith's Edinburgh home, and only a few yards from the plinth which carries his ample frame in a modern statue. Did not Adam Smith risk obesity from his repeated consumption of beef? Was not Mrs Smith recorded as saying, "*You are an excellent butcher, Mr Cuthill, and how much do I owe you for this joint*?" As Adam Smith put it, "*we address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages*".[8]

7 Smith (1776)
8 Smith (1776)

I hope a modern Scottish Court could rely on the robust common sense which characterised Adam Smith and his mother, and is sadly absent from so much modern dialogue. A great business is attentive to the tastes and resources of its customers, builds strong relationships with its suppliers, meets the needs of those who invest in it and work for it (including the algorithms), and is respected in the community of which it forms a part. Such attention to the variety of needs of its diverse stakeholders is the true social responsibility of business.

The Three Tables of Roulette: Asset Allocation in a Post-Liberal World

*By Saker Nusseibeh**

Saker Nusseibeh, CBE

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In rereading the "Why" paper, a 300 Club paper[1] I published in 2017, I was struck by the fact that I and the readers shared a common assumption – that the view of the world that Adam Smith described was a reflection of economic reality.

I argued in that paper that looking at the 'Wealth of Nations' without first reading his 'The Theory of Moral Sentiments' risked completely misunderstanding how Smith saw the functioning of business activity. That in 'The Theory of Moral Sentiments', Smith posited a view that a rational person would combine their self-interest with a care for the wider community in which they lived, because they saw an interdependence between their well being and that of society at large.

The specialisation of resources that Smith envisioned in his 'Wealth of Nations' was, by definition, based on the assumptions made in Moral

1 https://www.hermes-investment.com/uk/en/intermediary/insights/active-esg/the-why-question/

Sentiments, namely that in human commerce one can arrive at a situation when both parties in economic interactions can benefit from any such interaction equally and that all parties work to protect what today we might call the ecosystem in which they operated.

Otherwise, individuals and, on a grander scale, nations cannot trust the other sufficiently to build a web of interdependence which inherently, carries a risk of vulnerability. In other words, Smith was the original propagator of what we might term a win/win doctrine within a system where everyone abhorred injustice and strived to work collectively to preserve the society in which they lived.[2]

That Smith saw the world in this light is no surprise, for he was a product of the 18th Century Edinburgh enlightenment, but we tend to forget that his view, particularly his foundational world view in 'The Theory of Moral Sentiment' was not an accepted view until, I would argue,1945. The prevalent world view that defined the commercial and political interactions of the western world at the time of Smith and post his publication, was essentially a Mercantilist view.

The post-1945 system — shaped primarily by the United States, and to a lesser extent the UK — embodied that principle of self-interest coexisting with the preservation of the ecosystem and mutual benefit from trade. Institutions such as the IMF, the World Bank, and the GATT (later the WTO) were not simply bureaucratic mechanisms; they were expressions of faith based on an abhorrence of the human cost of WW2, not just in Europe but in China and Asia also.

One could argue that the impetus for this extraordinary move was two-fold; up to 1992 it presented a kinder face of capitalism in contrast to Soviet communism. And from 1992 it bound the ex-Soviet Union and China closer to the western world. In both cases it served the interests of and benefited the United States. However, globally, the result was extraordinary: global GDP multiplied and billions were lifted from poverty.

2 Dwyer, John. "Ethics and Economics: Bridging Adam Smith's Theory of Moral Sentiments and Wealth of Nations." Journal of British Studies 44, no. 4 (October 2005): 662–687. https://www.jstor.org/stable/10.1086/431936.

That, in turn, allowed normal corporate and business discourse to explore themes that reflected the view expounded in Moral Philosophy. Companies talked of social responsibility, of inclusion, of diversity and so on. And, as they did so, they found anecdotal evidence of commercial benefit, just as Smith had suspected.

Diversity allowed companies to access a wider pool of talent and perspective, purpose engendered employee loyalty, increasing productivity and acting responsibly reduced government and regulatory risk. The trend to accept this perspective was such that Milton Friedman's essay in 1970[3] seemed a crass anomaly, while in fact it simply reflected the world pre-1945. By the time most of the scientific community had come to grips with the dangers of global warming, Smith's assertion that rational people will work together to protect their ecosystem found an echo in governments and civil society's efforts to try to mitigate that risk.

It was in this atmosphere, in 2017, that the 'Why' paper was written and the subsequent discussions about sustainability, both for and against responsible business practices, took place. In all probability, most practitioners of my generation in finance thought that Friedman's view was the aberration, and not the historical norm.

However, it is becoming clear that President Trump, and many of his policymakers, believe the post WW2 world order, created by the US and which served US interests for a long time, no longer serves US interests. One could postulate that given the economic and technological superiority of the US, President Trump might see the attractions of reinstating a 19th century world order in which the US (as opposed to Great Britain) is the main beneficiary and where economic and technological lead results, not in mutual economic growth and benefit, but as was the case in the 19th century in the siphoning off of economic resources from the weaker party to the stronger party.

In that context, 'Liberation Day' is not about tariffs or US industry, but a rejection of an economic world view. Of course, it is perfectly within his gift as leader of the US (and logical from a US perspective) for him to do so.

3 Milton Friedman. "The Social Responsibility of Business Is to Increase Its Profits." The New York Times Magazine, September 13, 1970, pp. 122–126. https://public.websites.umich.edu/~thecore/doc/Friedman.pdf

The difference with the 19th century is twofold. First, the positive effects of the post 1945 world order are so manifest and obvious that the developing world has accepted its benefit to them. Secondly, there is a block of opinion within the more liberal part of the western world (UK, Australia, Europe and Canada) that feels ideologically wedded to the new world order and that view permeates their corporate structure as well.

We can see evidence of both these points in the push back to the new US policies in Europe on a governmental and corporate level and in the developing world and China.

Practically speaking this implies not that the global order shatters post liberation day, but rather that it breaks up into three blocs; The US, the Liberal bloc and the Chinese bloc which incorporates the developing world.

The return of mercantilism is not merely an economic shift; it is an intellectual one. The liberal order was grounded in trust — that open exchange could create mutual advantage.

The mercantilist order is grounded in suspicion — that every gain must come at another's expense.

The implications are profound. Global supply chains will shorten. Strategic industries will "onshore." Capital will flow where governments direct it, not where markets reward it. Diplomacy will increasingly resemble deal-making rather than consensus-build. The world is choosing between the invisible hand and the iron fist — between the economics of trust and the politics of power.

So what does this mean for investors?

The size of both the US and China economies is bound to increase the imperative for the European countries to act even more as a single bloc. Each single European country is incapable of withstanding a more aggressive mercantilist policy from the USA on its own, but in concert they can protect their combined interests better. In all probability, the UK, Australia and Canada would also work closely with this bloc, partly because of shared beliefs in open markets and common good, and partly because each would be too small to withstand the two larger economies on their own.

They would also increase their spending on defence because it has become clearer that, with a singular exception, the United States cannot be relied upon to support its allies in times of peril. Defence spending in general leads to technological advancement. Hitherto, the Europeans were content for the US to bear the brunt of defence spending and reap the majority of the technological rewards but, as European defence spending increases, more technological innovation will come out of Europe. Additionally, the European liberal bloc with its lack of secure energy supplies will likely increase its research and development of alternative energy.

By the time liberation day was announced, China was well on its way to establishing itself an indispensable partner to developing countries building up trade with them to lessen its dependence on US trade, and deepening its political influence over them with an alternative vision that extols centralist control, long term planning and economic growth – but without the trappings of democracy. It will probably argue to the developing world that Liberation Day signalled the failure of the post 1945 model under US leadership which then opens the path for an alternative 'global' open market policy with Chinese characteristics. China is already well advanced in alternative energy development and seems to have caught up in the development of AI.

Finally, The US is probably on the cusp of even greater economic growth as it utilises its technological and political clout to further advantage itself versus the rest of the world, secure in its near self-sufficiency in all vital resources, particularly energy, water and food. As it turns inwards, its commercial developments will rely on its large internal market rather than the external market which it will occasionally access. This isolationist policy is not harmful, per se, but will affect the kind of products that are developed. Think of EVs dominating the world outside the US and petrol cars dominating the US market, for example.

Investors are, therefore, faced for the first time in a long time with a world which does not move more or less in sync. As economic cycles become less correlated, asset allocation (including currency allocation) will probably return as a source of performance differentiation. Making general global index bets will therefore not be as efficient in creating value as making judgements as to where each separate economic cycle is going. In the past, I have said that using index funds is simply a way of betting red or black on a roulette table, this new situation will mean that there will be at least three roulette tables playing at the same time.

For active stock pickers, the world I grew up in where one looked at dominant global technologies and global leaders (still very much in evidence as I write with the Magnificent Seven) will more than likely change to become more about local leaders and local trends. Again, the application of index fund methodology will likely be a less effective way to generate excess returns consistently in such a divided and more volatile environment.

However, the breakdown of global interdependence will not necessarily mean the end of what one might term sustainable business practices. Businesses in all three blocs and in the developing world will try to attract talent from different sectors of its society and from elsewhere, so diversity will remain.

Companies will continue to treat their human capital in a way that enhances productivity and so 'enlightened' labour practices will continue because they are the most economically and financially efficient (remember it was the union hating extreme right wing Mr Ford who popularised the two day paid weekend for his workers because it lessened mistakes on his production line and allowed workers the leisure time to buy his products). And in all three blocs, corporates will take care to find acceptance from their client base and to get along with their regulators. In other words, sustainable or responsible business practice will continue because they make commercial sense although in some locations we might see less of the more religious fervour rhetoric around very minor parts of it.

From an ownership perspective shareholders will continue to try to protect their assets through governance mechanisms and, where they have the ability to do so, to nudge the companies they own towards long term consideration through stewardship and engagement. When the Muscovy Company was established in 1555 as the first joint stock company, the investors agreed to hand day-to-day control to the executive, but never acquiesced to the view that they have no ownership rights to safeguard their assets and only a right to reap dividends

Finally, whatever one thinks of global warming, the world is moving to alternative energy (not least because of the massive increase in demand from data centres) and many countries are already thinking of technologies to mitigate the effects of changing weather patterns on their population. Investors will realise that this secular trend is a rich seam to tap into for years to come. As an example, we can already see the dominance of Chinese EVs in developing markets.

The re-emergence of a fragmented global order has brought with it a renewed emphasis on asset allocation as a source of performance differentiation. As economic cycles decouple and geopolitical blocs assert different priorities, the old assumption of global synchronisation no longer holds.

Investors must now navigate a world where general index exposure resembles betting across multiple roulette tables, each spinning to its own rhythm. Currency, geography, and sectoral nuance matter again. Not as noise, but as signals.

Active management finds fresh relevance in a world shaped by local dynamics and regional leadership. The investors lens must now adjust. Not to abandon global thinking, but to refine it through the prism of local context. Just as Smith saw rational actors working within and for their ecosystems, companies across blocs will continue to pursue sustainable practices, not out of moral obligation, but because they are commercially sound practices. In this new world, those who embrace complexity and seek understanding rather than simplicity, will be best placed to preserve and grow capital in a world that no longer moves as one.

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Part III

Global Markets, Global Knowledge – Civilisations in Dialogue

Viewing Adam Smith and Ancient Polymaths with an Anthropocene Perspective

By Tan Sri Andrew Sheng

Tan Sri Andrew Sheng

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Andrew Sheng is well known in global financial circles as a former central banker and financial regulator in Asia and a commentator on global finance. Andrew is a member of International Advisory Council of National Financial Regulatory Administration (NFRA), China Securities Regulatory Commission (CSRC), China Investment Corporation (CIC), China, one of the Chief Executive's Council of Advisers, The Government of the Hong Kong Special Administrative Region and currently appointed as special adviser to the Sabah Chief Minister, Malaysia. Andrew served as Chairman of the Securities and Futures Commission of Hong Kong from 1998 to 2005, having previously been a central banker with the Hong Kong Monetary Authority and Bank Negara Malaysia. He also worked with the World Bank from 1989 to 1993. From 2003 to 2005, he chaired the Technical Committee of the International Organisation of Securities Commissions (IOSCO). Andrew is author of "From Asian to Global Financial Crisis: An Asian Regulator's View of Unfettered Finance in the 1990s and 2000s" (2009), and co-editor (with Ng Chow Soon) of the book, "Bringing Shadow Banking into the Light: Opportunity for Financial Reform in China" (2015). He writes regularly on international finance and monetary economics, financial regulation and global governance for Project Syndicate, AsiaNewsNet and leading economic magazines and newspapers in China and Asia. In April 2013, Andrew was named by Time magazine as one of the 100 most influential people in the world and appeared in the Oscar-winning film "Inside Job" in 2011.

2026 marks the 250th anniversary of Adam Smith's *An Inquiry into the Nature and Causes of the Wealth of Nations*.[1] Foundational to modern capitalism, Smith's magnum opus must be evaluated today through the long lens of intellectual history as we enter the Age of the Anthropocene. We can trace Smith's legacy, read together with his earlier work, *The Theory of Moral Sentiments*, to three earlier intellectual giants, the Chinese statesman Guan Zhong[2] (c. 720–645 BCE), the Indian royal guru/strategist Kautilya[3] (c. 350–275 BCE), and Arab historian/sociologist Ibn Khaldun[4] (1332–1406 CE, North Africa). These polymathic pioneers shaped the way humans thought, behave and acted in relation to nature, including the gaps that led to the planetary existential challenges of the present Anthropocene Age.

The Three Worlds of Wealth

Wealth is what humans perceive to be of value. The recent wars in Ukraine and Iran highlight that humans have fought throughout history over food, water, energy, money, power and status. In physics, nothing moves without energy. In biology, nothing survives without food, oxygen, energy and water. Sustainability is about survival or reproduction over time. The non-human world will continue on if humans destroy themselves through nuclear or biological warfare. Therefore human perception and command or waste of natural resources lie at the heart of whether humanity will survive the Anthropocene.

Man needs the planet to survive, but his perception of reality shapes his behaviour, which could, without understanding the limits of natural resources, lead to human extinction. Using philosopher Karl Popper's "three worlds" ontology,[5] human perception of reality can be categorised into **World 1 (The Physical)** or material world of energy, matter, and biological processes

1 Adam Smith - Wealth of Nations 250 - University of Glasgow https://www.gla.ac.uk/explore/adamsmith300/wealthofnations250/

2 https://studycli.org/chinese-history/guan-zhong; https://en.wikipedia.org/wiki/Guan_Zhong

3 Kautilya's Arthashastra: A Recognizable Source of the Wealth of Nations https://file.scirp.org/Html/8-1500837_63343.htm

4 The Role and Contribution of Ibn Khaldun In Islamic Sociology and Human Civilization; https://oarep.usim.edu.my/server/api/core/bitstreams/2c6c642c-372a-4ea5-bf1d-25da13583c83/content

5 The Application of Karl Popper's Three Worlds Schema to Questions of Complexity, Cybernetics and Infomatics, https://www.iiisci.org/journal/pdv/sci/pdfs/ZA786HK15.pdf

that humans can sense, see, smell, touch or hear. **World 2 (The Mental)** is subjective perceptions, experiences, and cognitive processes, especially mental representations of the physical. **World 3 (The Social/Abstract)** is objective knowledge, theories, laws, and institutional structures[6] that make up civilization. The ancient world, before the 16th century Enlightenment that began to specialise and split the mind and body, looked at Man and Nature as inseparable, a whole that cannot be disentangled from its parts, human, non-human and perhaps spiritual and sentient.

Like most Enlightenment thinkers, Smith used the idea of an 'Impartial Spectator,[7] whose objective judgement is our conscience that encourages us to behave morally and responsibly to society. The Impartial Spectator identifies the virtues or rules of behaviour such as prudence, justice, beneficence, and self-command or restraint that keep individual self-interest in check. Smith's great insight was to place self-interest with an "Invisible Hand" of markets that created public or social good.

The new discipline of economics, which Smith helped to put together the science of national wealth creation, shifted focus from World 1 (nature) to World 2 (human desire) and World 3 (the market). In the Anthropocene, human activity (World 3) has become the dominant driver of World 1 changes, creating a feedback loop that threatens our survival. In short, the linear, mechanical thinking since the Enlightenment created wanton consumption of natural resources that are irreplaceable, which can only to mitigated if we return to understanding that the whole has limits which the parts cannot consume, pollute or degrade indefinitely. The Anthropocene is the direct result of flawed thinking that man and nature can be separate and not a living whole.

The Polymathic Path to the Anthropocene

To understand the nature, causes, and politics of wealth, we examine four thinkers who saw the economy as a subset of the social and moral order and the role nature played in that order.

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6 Guo Zhiyi, Popper's Theory of Three Worlds and the Conception of a Fourth World https://philarchive.org/archive/GUOPTO

7 en.wikipedia.org/wiki/The_Theory_of_Moral_Sentiments

1. Guanzi (Qi state in China)

Living during the Spring and Autumn period, Guan Zhong served as Chancellor of the state of Qi. His collected writings, the *Guanzi*, are arguably the earliest comprehensive treatise on the political relationship between man, state and nature.

The Nature of Wealth: Guanzi viewed wealth as the foundation of political stability. "When the granaries are full, the people follow the rites; when food and clothing are sufficient, the people know honor and shame."[8]

Man, Nature and the Natural Way: Since agriculture and land were the primary source of wealth, Guanzi argued that the state must be governed just as nature flows in seasonal cycles, so that man and nature are one. Human values such as trust, integrity and hard work, are at the core of good governance that respects talent and agriculture, providing the stability and balance of a good society and strong ruler. Being a former merchant, Guanzi understood the need for low taxes, markets and living within means.

2. Kautilya (Mauryan India)

A contemporary of Aristotle and advisor to conqueror Chandragupta Maurya, Kautilya[9] authored the *Arthashastra*, literally the science (*shastra*) of material prosperity, politics, and statecraft (*artha*)."

Wealth and Statecraft: Kautilya famously stated, "Wealth is the basis of Dharma (righteousness) and Kama (desire)."[10] Unlike the Western dichotomy between the state and the market, Kautilya saw the state as the primary orchestrator of the economy to ensure national security and public welfare.

The Logic of Power: His approach was ruthlessly pragmatic. He detailed complex systems of accounting, auditing, and price controls, viewing the economy as a machine that required constant calibration by a virtuous but firm ruler. Nevertheless, living in his age of agricultural society, the state has to live with nature and nurture it in order to thrive.

8 https://ctext.org/text.pl?node=417867&if=en
9 https://instituteforhumanities.com/pse/kautilya%20(chanakya)?pseId=104
10 https://en.wikipedia.org/wiki/Puru%E1%B9%A3%C4%81rtha#

3. Ibn Khaldun (North Africa and Middle East)

In his Introduction (*Muqaddimah*) to an uncompleted masterpiece, Ibn Khaldun pioneered the fields of sociology and historiography.[11] Khaldun travelled extensively throughout North Africa and the Middle East, learning about different climates, culture and geography that gave him unique insights about human society and evolutionary cycles.

The Cycle of Civilization:[12] He introduced the concept of *Asabiyyah* (social cohesion). He observed that dynasties rise through solidarity and low taxes, which encourages production. As they mature, they become decadent, taxes rise to support luxury, and the economy collapses, leading to a loss of *Asabiyyah* and the eventual overthrow by a new, more cohesive group.

Labor as Value: Long before Smith, Khaldun argued that "labor is the real source of value,"[13] noting that the wealth of a nation is not its gold, but its people's ability to produce, including cultivating land and agriculture.

4. Adam Smith (1723–1790 CE, Scotland)

Smith's genius lay in synthesizing Enlightenment thought into a coherent system.

The Moral Context: *The Wealth of Nations* (1776) cannot be understood without *The Theory of Moral Sentiments* (1759).[14] Smith believed the "invisible hand" could only function within a framework of justice and "sympathy"—the ability to see ourselves through the eyes of an impartial spectator. The moral individual has also 'beneficence' (helping others) and self-command (or restraint and discipline not to harm others).

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11 Ibn Khaldūn's Epistemology of Natural Science within his Epistemology of Natural Science within his Philosophy of History; https://journal.nurscienceinstitute.id/index.php/jih/article/download/1507/662/8049;

12 The Perspective of Human Nature in Ibn Khaldun's Muqaddimah https://ejournal.usm.my/ijwcps/article/download/4860/5251/6186

13 https://faculty.georgetown.edu/imo3/ibn.htm#:~:text=Labour%2C%20therefore%2C%20is%20the%20real,is%20the%20source%20of%20value.

14 https://www.ibiblio.org/ml/libri/s/SmithA_MoralSentiments_p.pdf

Division of Labor: Smith identified the specialisation of labor as the primary "cause" of wealth, allowing for a massive increase in productivity. His famous example of the pin factory foresaw the arrival of complex supply chains of production and distribution to global scale.

Wealth, Taxation and Money

Underlying the differing approaches of these four thinkers is the way the state manages the "Political economy of Wealth."

Taxation

Because of the underlying influence of Daoism, particularly preferring minimal intervention to allow natural processes to take place, Guanzi argued for state monopolies on salt and iron to reduce taxes on food, farmers and commerce. The best taxes are "hidden" and minimal.

Kautilya saw taxes as the necessary price for the state to protect the people, with fixed rates on grain, but allowed for state subsidies during crises. Ibn Khaldun saw how low taxes produced high revenue, which incentivised greater production. It was high taxes that destroyed incentives to work hard and produced low revenue and state decline. Smith took the practical route of Four Canons:[15] Equality (ability to pay), Certainty, Convenience, and Efficiency. Taxation should not distort the natural liberty of the market.

All four saw money as an essential tool of exchange. Guanzi allowed state minting of coinage as a sovereign tool to manage the price of goods and ensure social stability. Kautilya saw money as essential for the treasury to maintain fiscal discipline, with strict laws against counterfeiting and debasement. Ibn Khaldun did not like fiat currency, preferring gold or silver, viewing currency debasement as a sign of moral and political decay. Adam Smith saw money as a "great wheel of circulation" that facilitates trade, but he also noted that real wealth is the annual produce of land and labour.

15 https://taxproject.org/four-canons-of-taxation/

Wealth in the Anthropocene

The above survey showed that the "Wealth of Nations" was written at the dawn of the Industrial Revolution, when World 1 (nature) seemed infinite and World 3 (the market) was the new frontier of wealth creation. Today, our extraction of wealth from the physical world has reached a breaking point from over-consumption through excess debt (borrowing from the future to consume today).

The Problem of Externalities

Smith's system relied on the market to price goods. However, the market has failed to price the destruction of the environment, because our national accounting measure, Gross National Product, has until recently excluded any costing of nature (degradation and pollution), as well as adequate measures of human well-being (social inequality and justice). We are currently consuming the "capital" of the earth (biodiversity, climate stability) and calling it "income" (GDP).

Guanzi, Kautilya and Al Khaldun, living in largely agrarian societies, understood the state's role in managing finite resources. They did not view the economy as an autonomous system, but as a part of the ecological and social whole. Their "holistic" view is arguably more relevant to the 21st century than the narrow, siloed economics of the 20th century.

From Individual Self-Interest to Collective Survival

Smith's "self-interest" worked when the primary goal was to lift people out of poverty through production. In the Anthropocene, unbridled self-interest has led to "The Tragedy of the Commons."

Ibn Khaldun's *Asabiyyah* (social cohesion) is now needed on a global scale. Without a shared sense of purpose and a collective commitment to protecting the physical realm (World 1), the social and mental realms (Worlds 2 and 3) will inevitably crumble. The linear and mechanical worldview of the Enlightenment must yield to a more complex, holistic, biological view that is imprecise, emergent and evolving dynamically with periods of order and disorder, prosperity or decay.

A New Synthesis

Evaluating Adam Smith alongside Guanzi, Kautilya, and Ibn Khaldun reveals a recurring truth: the economy is not a law unto itself. It is a social construct that must be grounded in moral sentiment and planetary physical reality.

As we mark the 250th anniversary of Smith's masterpiece, the challenge is not to celebrate the "mental" wealth like currency that we have created, but to reform the politics of real and just wealth to ensure the survival of the planet. We must move from a "linear" economics of extraction to a "circular" economics of stewardship. The wisdom of the ancient polymaths—viewing the state, the market, individuals and nature as an integrated living whole—provides the intellectual foundation for this necessary shift.

Wealth is no longer just about the "nature and causes" of production; it is about the "preservation and sustainability" of human existence within the Anthropocene.

Faith, Ethics and Finance: Islam, Christianity, Hinduism & Beyond

By Catherine Devitt

Catherine Devitt
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Catherine Devitt leads FaithInvest's programme on faith beliefs, teachings and values. With a background in environmental policy and faith-based engagement, she brings expertise in the intersection of spirituality, ecology and social justice. She previously worked with the Irish Jesuit Province on faith and environmental justice, has lectured at University College Dublin, Ireland, on environmental issues and has published in leading international journals on environmental sustainability.

Religious teachings recognise that how wealth is earned, managed, and used impacts people, communities, and the wider world. From Islamic teachings on fairness and restraint, to Christian calls for stewardship and justice, to Hindu understandings of *dharma* and the welfare of the whole, the world's major faith tradition convey a consistent message: capital is not an end in itself, but a means that must be used with purpose and care. While these traditions may differ in expression, they point in the same direction – challenging the idea that finance is value-neutral and emphasising that the use of capital should reflect a wider sense of purpose. This perspective also resonates with the work of Adam Smith, whose *Theory of Moral Sentiments* grounded economic life in moral judgement and a sense of responsibility to others. In this way, faith traditions and Smith alike suggest that financial behaviour is shaped not only by markets, but by the ethical frameworks through which wealth is understood and used.

This shared understanding is increasingly important in today's financial context. Faith-based organisations manage significant assets, and their investment decisions – what to hold, exclude, and support – have real-world effects. They are typically guided by a long-term perspective across generations and are increasingly sophisticated in their expectations of the investment chain. Faith traditions have long emphasised interconnectedness, justice, and care for creation and these principles align closely with a sustainable economy, where long-term prosperity depends on the wellbeing of people and the planet.[1, 2]

Faith organisations are increasingly asking whether their investments reflect their faith beliefs as clearly as the rest of their mission. This question sits at the heart of faith-consistent investing, which seeks to align investment decisions with faith values in a way that is intentional, structured, and consistent with fiduciary responsibilities.

This growing focus has accelerated in recent years. Initiatives such as the *Edinburgh Finance Declaration* (2016) and the *Zug Guidelines* (2017) helped articulate shared faith perspectives on ethical investing and contributed to the establishment of organisations such as FaithInvest, which works across traditions to support faith-consistent investing in practice.

Faith, Finance, and the Use of Capital

Islam: From Principles to Practice

In the Qur'anic tradition, wealth is understood as part of God's bounty, carrying responsibility as well as opportunity. Prosperity is permitted, but it must be used in ways that benefit others. The Qur'an praises those who give from what they have been entrusted with and criticises hoarding and excess. Economic activity is encouraged, but only when conducted fairly and without exploitation, creating a clear framework in which financial behaviour must be consistent with broader ethical obligations.[3]

1 FaithInvest (2025) 'The sustainable economy: A path to better returns for FCI investors', *FaithInvest*. Available at: https://www.faithinvest.org/post/the-sustainable-economy-a-path-to-better-returns-for-fci-investors

2 FaithInvest (2025) 'Faith values as a guide for effective risk mitigation and enhanced returns', *FaithInvest*. Available at: https://www.faithinvest.org/post/faith-values-as-a-guide-for-effective-risk-mitigation-and-enhanced-returns

3 FaithInvest (2017) *Zug Guidelines in Detail*. Available at: https://www.faithinvest.org/zug-guidelines-in-detail#dataItem-lkbagtmr, and FaithInvest (n.d.) Islam and Finance. Available at: https://www.faithinvest.org/islam-and-finance

This ethical foundation has been developed into a structured financial system. Islamic finance is not simply a set of ethical guidelines, but a developed system with defined principles, products, and governance. It prohibits interest, avoids excessive uncertainty, and requires financial activity to be linked to the real economy, ensuring that economic transactions are fair, transparent, and socially responsible. These principles are embedded across financial products, regulatory systems, and institutional structures, demonstrating how faith can be integrated into the architecture of finance itself.

At the same time, Islamic finance continues to evolve. The growing emphasis on *Tayeb* – what is good and beneficial – reflects a shift beyond compliance, encouraging finance not only to avoid harm, but also to address social and environmental challenges more directly.[4]

Christianity: Clarity of Teaching, Complexity in Practice

Wealth is not seen as inherently problematic in Christian thought, but it is always linked to responsibility. The concept of stewardship emphasises that people and institutions are caretakers of resources rather than absolute owners, with a duty to use wealth in ways that respect human dignity, protect the environment, and support those most in need. Financial decisions are therefore expected to reflect a commitment to the common good.[5]

This is reflected in a long-established body of thought, including Catholic Social Teaching, which sets out principles such as human dignity, the common good, solidarity, subsidiarity, and care for creation – all directly relevant to how capital is invested and managed.

Alongside this, Anglican, Methodist, and other Protestant traditions have developed ethical investment approaches reflecting similar priorities, including stewardship of resources, avoidance of harm, and the use of capital to support justice and sustainability. These priorities are reflected in the

4 FaithInvest (2026) 'How Tayyib economics is reshaping Islamic finance for people and planet', *FaithInvest*, 2026. Available at: https://www.faithinvest.org/post/how-tayyib-economics-is-reshaping-islamic-finance-for-people-and-planet
5 FaithInvest (n.d.) *Christianity and Finance*. Available at: https://www.faithinvest.org/christianity-finance

investment approaches of organisations such as the Church of England, the Methodist Church, and the Church of Sweden.

Recent initiatives such as *Mensuram Bonam*, published by the Vatican's Pontifical Academy of Social Sciences in 2022, have helped translate these teachings into more practical investment guidance, supporting institutions in moving from principle to implementation. There is also growing recognition that investment should not only avoid harm, but contribute positively to social and environmental outcomes.

Capital is therefore increasingly understood as a tool that can support mission and purpose. However, translating this clarity of teaching into consistent investment practice remains challenging. Unlike Islamic finance, where faith-based criteria are embedded within identifiable products and market structures, Christian investors often operate in a more fragmented landscape. This can make it difficult to identify clearly aligned investment options that reflect Christian values, and to ensure faith alignment across portfolios, managers, and asset classes.

Hinduism: Integration and Interdependence

Hindu thought approaches questions of finance and wealth through an emphasis on balance and interconnectedness. The pursuit of material well-being (*artha*) is accepted, but it must be guided by *dharma*, the duty to act in ways that sustain and support the world. Principles such as *ahimsa* (non-harm) and *yajna* (giving before receiving) reinforce the expectation that economic decisions should contribute to the welfare of all.[6, 7]

Hindu thought emphasises that financial decisions exist within a wider system of relationships and responsibilities, where actions have consequences for others and for the wider world. Concepts such as *karma* and *lokasangraha* reinforce the importance of acting in ways that uphold the wellbeing of the whole.

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6 FaithInvest (2017) *Zug Guidelines for Faith-Based Investors*. Available at: https://1a956828-fe29-43d1-a8f0-31f34ea86a62.filesusr.com/ugd/41bfc5_a1eb9759dac948259c3836905867946d.pdf

7 Mujrai, P. *The Dharmic Economy: A New Paradigm for Inclusive Growth*. Available at: https://www.researchgate.net/publication/390056165_The_Dharmic_Economy_A_New_Paradigm_for_Inclusive_Growth.

In practice, this creates an approach to investment that considers not only financial return, but also social, environmental, and longer-term impacts. While less formalised in global markets, Hindu perspectives are increasingly shaping thinking on sustainability and long-term value. They represent an important contribution to the wider conversation about the purpose of finance.

Islam, Christianity, and Hinduism are not the only traditions that bring moral depth to questions of finance. Jewish and Buddhist teachings further illustrate the breadth of faith engagement with economic life. Jewish thought emphasises *tzedakah* (justice in the use of resources), prohibitions on exploitative lending, and obligations to community. Buddhist frameworks emphasise right livelihood and economic activity that avoids harm and supports human flourishing rather than accumulation.

From Faith to Practice: A Shared Challenge

Across traditions, approaches to finance have developed at different levels of institutional depth. Islamic finance, for example, has evolved into a developed system with products, governance, and regulatory frameworks. In much Christian investing, strong principles exist but market practice remains more fragmented. In Hindu traditions, ethical frameworks are rich, but the financial infrastructure to support them is still emerging.

In this context, the challenge – and the opportunity – is to ensure that faith is reflected consistently in financial practice. Research such as FaithInvest's *Good Intentions 2026*, which analyses 275 publicly available investment policies (mostly Christian), shows that faith organisations still focus more on avoiding harm than directing capital toward positive outcomes. It also highlights a gap between faith principles and the realities of available products, market structures, and the expertise needed to navigate them.[8]

This is not primarily a problem of motivation. The faith institutions FaithInvest supports are genuinely committed to aligning their assets with their values. The barriers are often structural: concerns about fiduciary obligations, limited access to suitable products, a shortage of advisers

8 *Good Intentions* 2026 is available for download at: FaithInvest (2026) *Faith in the Common Good*. Available at: https://www.faithinvest.org/faith-in-the-common-good.

fluent in both finance and faith, insufficient impact data, and governance frameworks not designed with faith-consistent objectives in mind. Closing this gap requires stronger ecosystems of products, expertise, standards, and resources that can help faith institutions translate faith principles into durable investment practices at scale.

Conclusion

Faith-based institutions manage significant assets, yet much of their potential remains unrealised. While these assets are guided by strong values, they are not yet consistently directed toward positive social and environmental outcomes. Closing this gap will require embedding faith principles more consistently in investment decisions and strengthening collaboration across traditions and the investment chain. In doing so, faith-based investors can help shape a financial system grounded in purpose, responsibility, and the common good – reflecting a shared understanding that how wealth is used can contribute to the flourishing of people, communities, and the wider world. In this sense, faith-consistent investing can be seen not as a departure from economic tradition, but as a recovery of the moral foundations that thinkers such as Adam Smith assumed.

Adam Smith's Wealth of Nations at 250: Reclaiming the Financial Commons – An Islamic Perspective

By Tan Sri Azman Mokhtar

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بسم الله الرحمن الرحيم

Smith at 250: The worst of times, the best of times

The 250th anniversary of the publication of Adam Smith's *The Wealth of Nations* comes at both the best of times and indeed the worst of times. It is indeed the time of poly-crises of illegal wars, genocide, worsening economic and social inequality within and between nations, a burning planet and a mental health epidemic. It is also true that the last 250 years has also been an unprecedented epoch of progress in science and technology, education and literacy, longer lifespans, better quality of life, poverty reduction and economic growth. And yet, therein lies this nagging inconvenient truth; how is it that our species suffers so much misery amidst so much plenty? A stark example lies in the recent Covid-19 pandemic, where the ingenuity and speed of the discovery of effective vaccines was in the end eclipsed by the failure to get them to about half of mankind.

So, who can we blame? The dismal science of economics and finance is usually high on the list of suspects. Today, we do indeed live in financial times. Even the germinating capitalism discussed in Smith's great work 250 years ago is now often captioned as financial or financialised capitalism. Indeed, since 1971, the expansion of finance has significantly outpaced the growth of the real economy, to the point that the stock of financial assets, by some measures, is now approximately USD500 trillion, more than four times the global GDP of an estimated USD126 trillion in 2026. Indeed, the pyramid has inverted: while finance is supposed to serve the real economy that is in turn supposed to support the flourishing of a just and progressive society, much discontent today stems from the converse.

Smith's *Wealth* at 250: of empire, schisms, hijacks and power structures

Of course, any retrospective assessment of the impact of *The Wealth of Nations* cannot exist in a vacuum, divorced from the forces, ideas, ideologies and power structures shaping the last 250 years. A rich and tumultuous period, mostly recorded as the rise of the West and the concurrent eclipse of the Rest. An age of glorious and emancipating empire for some, and rapacious oppression, slavery and colonialism to others. The standard Western narrative oftens credits its triumph to capitalism, science, individual freedom and liberalism as major ideas propelling its rise. It often neglects or even supresses views inspired by the rest of the world, including from my home region of Malaya, Malaysia and South-East Asia, of oppression, exploitation and theft.

Therefore, a review of Smith's enduring legacy in the world necessarily has to begin by reconsidering his relationship with this overarching backdrop of the age of empire.

Firstly, the record suggests that Smith was mostly on the right side of history in this regard: a staunch critic of many of the most odious aspects of empire: of the slave trade, mercantile capture and the East India Company for a start. Nonetheless, his concerns were not just ignored and neglected. Many of his ideas were deployed to justify empire and exploitation. To be sure, some of this was regardless of geography and colour: the dark satanic mills he acknowledged were as much in Lancashire as abroad.

As many, including GEFI, have observed, the biggest and most consequential cause of this misappropriation is the misrepresentation of *The Wealth of Nations* as devoid of the ethical norms more pronounced in Smith's first great work, *The Theory of Moral Sentiments*. Indeed, Smith anticipated such misappropriation of his legacy by revising *Moral Sentiments* after seeing how *Wealth of Nations* was hijacked by narrow and self-serving interests.

Bila sesat, kembali ke pangkal jalan (When lost, return to the fork in the road, to start again) – a wise proverb from my native Malay world.

While critical, this misappropriation and abuse was not the only one.

Undoubtedly, the Enlightenment freed the West from the *ancien regime* and its corrupt capture of the Church, there is an argument that it overshot its liberation. As Nietzsche declared that "God is dead", Man and his unbounded liberty became the centre of the cosmos just as Descartes' split of separating the mind, consciousness and the body, ultimately and cumulatively resulted in the fatal divorce of the material and the spiritual, the moral and the amorally expedient, and ultimately between the temporal and the transcendent. Indeed, it is of no wonder that we are not able to square the circle anymore. Humanity has created fundamental, axiomatic and alienating schisms; divorcing and separating the individual from the collective, profit from purpose, capital from morality, and indeed, Man from and his Creator.

To be sure, there has been, throughout history, a constant battle of these opposing forces. Indeed, the overall march of progress for mankind on many fronts bears witness to this ebb and flow of history. For example, during the last 80 years or so, in the post-war period from 1945, and the post-colonial era from the 1950s, has seen new springs. Often lasting a decade or two, nations of the world have flourished with spurts of growth, for markets at home and beyond, typically interrupted by rude awakenings that these were vulnerable and unsustainable. But financial and economic crises have increased in amplitude and frequency from the 1980s , culminating in the 2008 Global, actually Western, Financial Crisis. Yet again, for a brief while, there was some critical introspection, reflection and even serious discussions of more stable and humane alternatives. As the MDGs evolved into the SDGs, alternative notions of the stakeholder economy and ESG became more mainstream, briefly querying the erstwhile primacy of the shareholder economy.

But the moment did not last long, as Western central banks offered 'quantitative easing' as the solution, drowning out voices of reason and reform, ignoring the worsening inequality and climate crises despite growing discontent from the *precariat* and other assorted victims After 250 years, perhaps we find ourselves at the end of a Smithian super-cycle. Of late, in the fog and tragedy of illegal wars, genocides, the proliferation of misinformation and disinformation, and the twin-crises of inequality and the climate emergency, many have been quoting the late Italian Marxist, Antonio Gramsci that "the old world is dying and the new world struggles to be born: now (in this interregnum), is the time of monsters."

The view from Islam – a synthesis for all time, a solution for all worlds

Islam offers a worldview quite distinct from these schisms.[1] It clearly defines the purpose of life as achieving Al-Falah, success in this world and even more so in the eternal world of the Hereafter. In our short time in this life, we are here to seek the favour of a merciful God, as His servant, by actualising divine guidance by following the *Deen* (religious creed and prescribed way of life) as a complete and integrated system for living in this

1 For an outline of the worldview of Islam, see the Prolegomena to the Metaphysics of Islam: An exposition into Fundamental Elements of the Worldview of Islam by Syed Muhammad Naquib Al-Attas (ISTAC, 1995)

world, and by striving to help establish God's will of putting in place a just and benevolent system in this world as His trustee and vicegerent. Islam as a system is *Syumul* (comprehensive and complete, i.e., perfect) from the smallest details of everyday personal life to realise complex systems of organising society and community activities including economic, financial, political, education, scientific and innovation systems.

The primary sources for such divine guidance is the Holy Qur'an which Muslims believe is the revealed word of God, the Seerah and Ahadith (the sayings and example of) the Prophet Muhammad[2] and the *Ijmak* (consensus) and *Ijtihad* (innovations) of the scholars, leaders and institutions (striving for the correct interpretation and consensus of the scholars). This collective guidance covers all aspects of life; at all levels, of the individual, family, society and community, and indeed at nation-state and international levels. One critical organising system in Islam is its economic and financial system which is an important part of the integrated whole of the conception of Islam as a Deen, or way of life.

Significantly, Islam's economic and financial system is managed by Man role, as God's and as his vicegerent (Khalifah) or steward/trustee of God on earth, as His servant to realise and establish justice and benevolence. Islam teaches that it is the moral duty of all believers to adopt the middle way, that is against all forms of extremities.[3] While fully granting appropriate 'property' rights and encouraging enterprise and entrepreneurship, especially through taking and sharing risk, it is always subject to Man serving as a good steward and trustee of resources used for achieving the greater good. It emphasises both efficiency in production, productivity and innovation; and especially in ensuring a fair and equitable system of creating, distributing and circulating wealth and achieving developmental outcomes such as education, research, innovation and provision of basic services and public goods such as healthcare, hygiene and public safety deemed to be basic human rights. The Islamic financial system further prohibits usury and all forms of financial oppression and exploitation, avoiding undue ambiguity and uncertainty. It includes divinely ordained systems such as *zakat* (a wealth

2 Peace and blessings be upon him
3 Al Quran: Al-Baqarah 2:143 – And thus we have made you a middle nation (ummatan wasatan) so that you may be witness over humanity.

tax to redistribute to the poor and for public goods) and *waqf* (endowments for public use such as in education and healthcare).

As can be seen, there is much in common with many good practices of conventional economics and finance, at least in its more classical sense when anchored in ethical norms. Indeed, the work of Adam Smith is often said to have been anticipated by 700 years and 400 years respectively by the work of Islamic luminaries such as Al-Ghazali and Ibn Khaldun. Indeed, Smith's famous pin factory example to illustrate the division of labour is eerily similar to Al Ghazali's needle factory example. Likewise, Ibn Khaldun's insights on the labour theory of value and Laffer's 'supply-side claims' to cut income and wealth taxes anticipated later economists by some four centuries.

Meanwhile, Islamic Finance today, principally through asset-backed lending activity and through Islamic debt capital market instruments called sukuk, are now a prominent or even dominant part of the financial system in several Muslim majority countries. In Malaysia, for example, syariah-compliant Islamic lending now makes up close to half of the total banking system while capital markets – both equity and sukuk (syariah-compliant, bond-like debt capital market instrument) – are about two thirds of the total system. With an estimated USD6 trillion of global assets growing at double digit rates for the last three decades, progress has been good. But to put it into perspective, that still represents under 2% of estimated financial assets globally. This comes to 9% of the GDP of the 57 OIC[4] Muslim nations and almost a quarter of the world population, or the two billion world Muslim population, underscoring the notion that in spite of the progress made, there is still much to do. Nonetheless, there is much momentum and Islamic Finance and the Islamic real economy continues to make steady progress in both quantitative indicators as well as qualitative practices such as the further deepening of Islamic equity markets and Islamic social finance instruments of zakat and waqf as well as an emphasis to shift from legal form and shariah compliance to economic substance and shariah impact or from Halal (Syariah-compliant and permissible) to *Halal* and *Tayyib* (a higher standard of being not just permissible but more so to be more pure, wholesome and Syariah-impact of achieving higher order outcomes).

4 Organisation of Islamic Countries

Reclaiming the financial commons:

from Adam Smith to Adam, healing schisms, reuniting wealth and morality

The process of restoring and reclaiming and the financial commons in the context of Adam Smith and the global economic and financial system needs to start with bringing back the capitalism of *The Wealth of Nations* to the moral economy of the *Theory of Moral Sentiments* reflecting Smith's sentiment that "...To feel much for others and little for ourselves, that to restrain our selfish, and to indulge our benevolent affections, constitutes the perfection of human nature."[5] Indeed Smith was a universalist and a moral philosopher who was open to a wide range of sources of wisdom including from Islam's rich heritage. He cited, for example, that "...the empire of the Caliphs seems to have been the first under which the world enjoyed that degree of tranquility which the cultivation of the sciences require...which their mild, just and religious government diffused over their vast empire, revived the curiosity of mankind to inquire into the connecting principles of nature."[6]

Indeed, the healing of the global economic and financial system in the Western and conventional sense necessarily has to start by restoring, at its fount and point of departure, by retracing to the proverbial fork in the road. The issues and crises are manifold, increasingly complex and interconnected. We would do well to go further; to reconnect with faith and the divinely ordained ways contained in religious instruction.

As such, it is appropriate, I believe, to think of another shift. This involves challenging the notion of Adam Smith as a prophet of unbridled capitalism. Instead, Smith needs to be rediscovered as a thoughtful moral philosopher, steeped in the conception of a humane capitalism. In the context of a world that has found it hard to reconcile between humanity and progress, we would perhaps be wise to consider going back to not just the real Adam Smith, but further back to Adam himself, the first man, our common forefather.

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5 Adam Smith, Theory of Moral Sentiments (1759)

6 Adam Smith, "The History of Astronomy", The Essays of Adam Smith, (London 1869, pp. 353)

Indeed, in Islam, the chain of prophets is bookended by Adam a.s. and Muhammad s.a.w. as the seal of the prophets. The messages of the prophets were ultimately similar, to guide human beings correctly in our relationships with our Creator, as servants, to serve our fellow man, and to be reliable stewards for all God's creation, including our fellow man, other species and the environment. The Qur'an narrates that this heavy trust (*amanah*) was offered to all of God's creations, including the mighty mountains but they all said no save for our forefathers who – perhaps foolishly or at least recklessly - accepted the challenge.[7] To my mind, we can collectively restore these relationships, heal the schisms and close the gaps between individual and society, between profit and purpose, between capital and morality by reuniting and placing, in its proper place, the relationship between man and God.

Notwithstanding this journey of reclamation is at a relatively early stage, after centuries of colonial rule, many Muslim societies and nations have gained considerable momentum in building economic and financial systems based on the deep heritage of Islamic sources and rich history. While Islam has distinct offerings to the world, Islam also requires it works in harmonious dialogue and exchange with other civilizational and religious systems. This diversity is indeed a blessing we need to harness, to ensure parallel and complementary paths to what the Qur'an describes as a noble ascent.[8] This would involve a renewed commitment to the SDGs, to sustainability, ESG and an Islamic Finance system that is not just *Halal*, but more so, *Tayyib*, and to return to an economic system of being *al-Iqtisad* (the balance between economic extremes and the "judicious administration of the concerns and resoources of the Community").[9] This is a call to action, to embark on this blessed ascent, so that we may embrace such benevolence together, to reclaim the financial commons for the common good.

7 Al-Ahzab 33:72, the Holy Quran
8 Al-Balad 90: 11-17, the Holy Quran
9 Syed Muhammad Naquib Al-Attas, The Covenants Fulfilled. Ta'dib International, 2023, pp 40).

Part IV

Reimagining the Purpose of Markets

Adam Smith and the Invisible Foundations of Our Modern Global Economy

By Amanda Young

Amanda Young

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Amanda was the Chief Sustainability Officer for the Investments business at abrdn, where she led the sustainable investment strategy for the firm and the Investment Sustainability Group. She has over two decades of experience in responsible investment. Previously, Amanda held positions at Newton Investment Management, CCLA Investment Management and Rabobank International. Amanda graduated from Lancaster University with a BSc in Psychology and has completed the University of Edinburgh Business School's Executive Women's Leadership Programme. Previous appointments include Chair, workstream for the UK Government's Taskforce on social impact investment, co-Chair of the Scottish Purposeful Business Commission, Board Director of the UK Sustainable Investment and Finance Association (UKSIF) and Chair of the FTSE Russell ESG Advisory Committee. Amanda has appeared on the Financial News top 100 most influential women in European Finance for 6 years. She was the inaugural winner of Women in Investment Awards Sustainable & ESG Investment Woman of the Year in 2021 and was on Financial News' inaugural Fifty Most Influential in Sustainable Finance list in 2022.

Many see Smith as a simple champion of unbounded self interest. In a modern society, where we recognise the social and environmental aspects of a flourishing economic society, some may argue we should abandon Smith's principles of economic theory. In reality, Smith's vision was a lot more complex.

In *The Wealth of Nations* he explicitly said government must uphold justice and fund necessary public works - not abandon all responsibility to the market. He argued that a ruler's duties include defending the realm, protecting society from injustice or oppression, as well as maintaining society's infrastructure. Smith also argued that humans have innate moral feelings, supporting the good of society. Even his famous invisible hand metaphor (the idea that individuals pursuing their own-self interest in a free market unintentionally promote the welfare of society) was about unintended social benefits, not a license for greed. He certainly was no apologist for unchecked selfishness.

But we must also be honest about what Smith *did not* include. He wrote at a time when both nature's bounty and household labour were assumed unlimited and free. In *The Wealth of Nations* he even observes that in agriculture "*nature labours along with man; and though her labour costs no expense, its produce has its value*". Yet the economic models of his era effectively ignored those "free" inputs. Later economists reduced production to labour alone, brushing aside the role of soil, sunlight, pollinators and water. Nature provides unaccountable valuable inputs in all economic activity, and its overuse now imposes hidden costs that markets never priced in.

In Smith's world, wilderness and clean air were assumed bottomless, so they were never included in his calculations. Smith's omissions partly reflect his context, in his era many things (like nature's inputs) were taken as inexhaustible. But cultural context also matters. Societies like Britain and in particular Scotland, have long traditions of communal welfare and social solidarity. Scots often speak of egalitarianism as "inherent in the national culture". After World War II, Britain enacted Beveridge's plan to vanquish the five "giant evils" of want, disease, ignorance, squalor and idleness; Attlee's Labour government proceeded to implement these in founding a universal health service and broad welfare programmes. In these traditions, Smith's emphasis on justice and sympathy rings true, the idea that society has a duty to protect its weakest members is taken as a given.

Likewise, Smith's formal economics treated the household as a black box. The vast unpaid work done in homes such as cooking, caring for children and elders, maintaining families, simply doesn't appear in GDP or classical value theory. Modern GDP measures only monetary transactions and excludes all essential unpaid household work and family care, work fallen disproportionately on female shoulders. Feminist economists have long pointed out that our economic models literally assume this work will be done for free, normally by women. The work that Smith's world depended on have been consistently left out or undervalued. We might even call that unpaid care our society's "grossly undervalued domestic product". By leaving these cornerstones invisible, Smith (and later economists) made the economy appear self sustaining, when in fact it was propped up by gratuitous contributions.

Today, we can see why this matters. Politicians and corporations love to invoke Smith's "invisible hand" as if it blessed any pursuit of profit. But this is a distortion. Smith's examples of the invisible hand always involved community benefit, to promote an end that helps society. In *Moral Sentiments* he imagined the rich inadvertently providing necessities for the poor. He never meant "self-interest" to absolve individuals from the laws of justice. In fact, he explicitly said each person is "left perfectly free to pursue his own interest… so long as he does not violate the laws of justice". In other words, Smith saw personal ambition working only when bounded by moral and legal constraints.

Critics of modern capitalism note that we've often forgotten that caveat. To many the invisible hand is just shorthand for "greed is good." But as critics point out, unchecked markets can lead to *inequality*, concentrated corporate power, and environmental disaster, outcomes Smith never intended. In practice, because economists never charged for nature's contributions, companies have treated forests and fisheries as free dumping grounds. And because we didn't count household labour, businesses assume workers have wives, mothers or children ready to provide care for nothing.

This omission has real costs. Environmental scientists warn that during a single human lifetime, we have changed the planet so much that the benign stable conditions sustaining civilisation have ended. A shocking truth. And social observers point out that by ignoring domestic labour we reinforce gender inequality. As one activist put it, our economy literally "runs on women's unpaid work", a vast subsidy that helps firms look profitable while others pick up the tab.

So, the “mistake” in Smith is not that he was wrong about self-interest, but that later generations misremembered him as a one dimensional free market prophet and dropped his context. The real Adam Smith acknowledged many limits, though he didn’t build them into formulas. He worried about workers’ “mental mutilation” from endless repetitive labour and even suggested public education as a remedy. He saw wealth not merely as gold, but as the nation’s ability to enjoy “the necessaries, conveniences, and amusements of life”. He hinted that the rich had a *moral duty* to donate part of their surplus for the common good, an act very few truly rich people do. We need to remember that Smith called for markets under “proper regulation,” and given his praise for dismantling monopolies, he likely would support laws that guard against environmental ruin.

So, reclaiming Smith’s full legacy means doing what he never got the chance to do explicitly: reintegrate morality, ecology and social care into economics. It means accounting for the free gifts of nature (perhaps by pricing carbon and protecting natural capital) and valuing the care work that sustains us. It means preserving Smith’s “system of natural liberty” under the fixed pillars of justice and public goods. Only then will we heed Smith’s true message: that economics should serve society as a whole.

There is also a practical implication of this argument that matters enormously today in the investment industry. Modern financial markets allocate vast amounts of capital, shaping the future of industries, technologies and societies. Yet many investment decisions still rely on economic frameworks that omit, among others, these two “invisible foundations”, those of nature and care.

From an investor’s perspective, these omissions are no longer just philosophical curiosities, they are sources of real risk.

Take natural capital. Businesses depend on functioning ecosystems such as stable climates, fertile soil, reliable water supplies, biodiversity and pollination. When those systems deteriorate, the consequences appear directly in company balance sheets. Agricultural yields fall. Supply chains are disrupted by extreme weather. Insurance costs rise. Infrastructure fails.

Investors who ignore these environmental dependencies are therefore mispricing risk. What once appeared to be a profitable business model may turn out to rely on the silent depletion of natural assets. In that sense, environmental degradation is not simply a moral issue; it is a financial liability that is increasingly being recognised through regulation, carbon pricing and shifting consumer expectations.

The same logic applies to the second invisible foundation, that of unpaid care work. Our economies depend on a vast amount of labour that never appears in national accounts or corporate reporting. Childcare, eldercare and household work sustain the workforce itself. They enable people to participate in markets, maintain health and develop skills. Yet because this labour is largely unpaid and historically undertaken within households, it has been treated as if it were economically irrelevant.

But from an investment perspective, ignoring the care economy also creates risk. Labour shortages, declining workforce participation, mental health issues, burnout and demographic pressures are already reshaping advanced economies. Companies that fail to recognise these pressures, or that rely on fragile systems of unpaid care, face long-term productivity and workforce challenges. Conversely, investments that strengthen social infrastructure such as through childcare provision to eldercare systems, can improve labour market participation, economic resilience and long-term growth.

Seen in this light, incorporating these two foundations into investment decisions is not merely about ethical investing or corporate responsibility. It is about understanding the true conditions under which markets can function sustainably.

In fact, doing so may bring modern capitalism closer to Adam Smith's original vision. Smith believed that markets could generate widespread prosperity when they operated within a framework of justice, stable institutions and shared goods. When investors recognise the value of natural systems and social care, they help align private incentives with those broader social conditions.

Capital begins to flow toward businesses that preserve ecosystems, support workers and contribute to social stability. Over time, those firms may prove more resilient, more productive and better positioned for long-term returns. In other words, recognising these “invisible foundations” allows the invisible hand to work more effectively. When the true costs and dependencies of economic activity are acknowledged, individual pursuit of profit is more likely to reinforce, rather than undermine, the flourishing of society.

And that, I suspect, would have been very close to Adam Smith’s intent.

A ‘Stern’ Look at Smith Through the Eyes of an Asset Owner

By Eva Cairns

Eva Cairns
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Eva is Head of Responsible Investments & Stewardship at Scottish Widows, responsible for embedding responsible investing into the investments proposition and leading our efforts to engage and shape best practice across the industry. She joined Scottish Widows from abrdn where she was the Head of Sustainability Insights and Climate Strategy. She led abrdn’s climate strategy for Investments and has published a number of climate related papers including on net zero investing, climate scenario analysis, the credibility of net zero targets and the just transition.

Eva graduated with an MSc in Economics with Distinction from the University of Edinburgh where her dissertation focused on the social cost of carbon. She also obtained the Professional Risk Management (PRM) certification in 2014.

Long-term asset owners, particularly pension funds, occupy a distinctive position in the financial system. They invest on behalf of beneficiaries whose interests span decades, rely on the macroeconomic performance of the global economy as a whole, and are exposed to risks that cannot be diversified away. As a result, their fiduciary responsibilities rest on a critical assumption: that markets, over the long term, allocate capital efficiently and support durable economic growth. **But what if this assumption does not hold?**

Let’s consider what Adam Smith would have said 250 years ago. He is best known for the theory of the ‘invisible hand’ that guides markets to allocate capital efficiently without the need for interference – but Smith clearly says that the invisible hand only works if certain market conditions are met. One critical point he made was that markets function well '*so long as one does not violate the laws of justice*'.[1] He defines justice as 'the absence of injury to persons, property, and reputation' – or simply 'do no harm'.

The topic of justice and economics was also explored and developed by the influential economist, Lord Nicholas Stern. He published the Stern Review in 2006[2] with a clear message: **Climate change is the 'greatest and widest-ranging market failure ever seen'** – in other words, those emitting greenhouse gas emissions that cause damage to society do not have to pay for the consequences of their actions. In economic theory, market failure occurs when a free market fails to allocate resources efficiently, leading to sub-optimal outcomes for society. Stern concluded that the benefit of climate action - mitigating carbon emissions to limit global warming – would outweigh the considerable societal and economic cost of inaction.

At that time, I was a young Economics student at the University of Edinburgh, the home of Adam Smith. I was intrigued: How do we tackle this obvious and substantial market failure? Why are policy makers not acting and reflecting this through incentives such as carbon pricing? The laws of justice did not hold: Those emitting carbon were not paying for it and causing harm to others; those without responsibility across society, regions and generations would pay the price through the damage caused by climate change.

This deeply inspired my own thinking and career choices. The exploration of the optimal carbon price to reflect societal damage did indeed become the focus of my Masters dissertation shortly after the Stern Review was published – and led me to focus my career on addressing climate change, and other sustainability challenges, through finance and markets.

1 Smith, A. (1776/1976) *An Inquiry into the Nature and Causes of the Wealth of Nations*, ed. R.H. Campbell and A.S. Skinner. Oxford: Oxford University Press, Book IV, Chapter IX.
2 Stern, N. (2006) *The Economics of Climate Change: The Stern Review*. Cambridge: Cambridge University Press.

One key recommendation from Stern's work was to set a carbon price on emissions, to be paid by those responsible for creating the externality. 20 years on from that recommendation, the World Bank carbon pricing tracker[3] shows that only around 28% of global emissions have a carbon price attached to them. And in most cases, prices are at a level far below what is needed to incentivise decarbonisation in line with the goals of the Paris Agreement. A long way from the Stern Review 2006 recommendation to price carbon to tackle the market failure.

In 2025, Stern published what is sometimes referred to as 'the Stern Review 2.0', reiterating many of his messages from 2006 and going even further. He positions climate action as **'the growth story of the 21st century'.**[4] One that drives sustainable, resilient and inclusive growth. Stern argues that a transition to low-carbon, resilient systems – across energy, transport, cities, land and water – represents a superior growth path, provided it is supported by sustained investment and credible policy frameworks. Climate action should therefore be embraced as an opportunity rather than a trade- off to growth. **The choice is not "growth versus climate", but "clean growth or collapse".**

Let's take a 'Stern' look at Smith to bring their perspectives together: Market failures such as climate change that disproportionately affect different regions and groups within society who have not contributed to the problem whilst others emit carbon 'for free' can be interpreted as a clear violation of the laws of justice that underpin well-functioning markets.

For long-term asset owners, the implications of this market failure are clear: climate change presents a wide-reaching, global systemic risk that puts the resilience and growth of capital markets at risk. Market growth provides the foundation for delivering long term investment returns for pension savers, especially for more passive investors. The impacts of climate change is not something one can diversify away from through portfolio construction. It should therefore be within an asset owner's fiduciary duty to address climate change.

3 World Bank Group (2026) *Carbon Pricing Dashboard.* Available at: https://carbonpricingdashboard.worldbank.org/

4 Stern, N. (2025) *The Growth Story of the 21st Century: The Economics and Opportunity of Climate Action.* London: LSE Press.

Stewardship is a key lever at hand to help drive change to correct such market failures. Crucially, it is **systems-level stewardship** that is required to tackle these systemic challenges that diversified investors are exposed to. Not only by engaging with investee companies, but importantly, with other actors in the' system' that influence the barriers and incentives companies face - such as asset managers, global supply chains, policy makers, regulators and standard setters who create the environment we need for markets to flourish in line with Stern and Smith.

Crucially, long-term asset owners are generally global investors and need to consider **geographical differences and opportunities across markets.** In his 2025 publication on climate action as the growth story of this century, Stern emphasises the importance of investing in emerging markets and developed economies (EMDE) to maintain sustainable global growth – this is where most investment will need to flow – an additional £3tn per annum by 2030. It is also where climate impacts and cost of capital are disproportionally higher than in developed countries.

When considering the impact of climate action, **Stern frames justice along two dimensions** – within countries (workers &communities) and across countries (developed vs developing nations) providing the framework for **a just transition** that considers the implications of structural transformation on different regions and parts of society. A just transition, particularly in EMDE, is one that delivers jobs, skills, energy access, improved health and resilience alongside decarbonisation.

Stewardship can help establish best practice, engaging on the conditions that enable investment-driven and people-led just transitions, ensuring that voices of different communities and parts of society are heard. For example, asking companies to demonstrate how they engage with and provide benefits to local communities when developing large scale projects or infrastructure across the globe.

Linking this back to Smith's other work on 'The Theory of Moral Sentiments',[5] how companies and communities interact should be steered by a moral compass that underpins human decision making and reflects the principle of

5 Smith, A. (1759/1982) *The Theory of Moral Sentiments*, ed. D.D. Raphael and A.L. Macfie. Indianapolis: Liberty Fund

reciprocity. Taking a people lens to climate action increases public support and facilitates more stable and resilient decision making, providing the certainty needed for investments to flow.

One sector where this is of crucial importance is mining. Mining has a fundamental impact on local communities - economic, social and environmental. Engaged communities that benefit from local employment and growth will naturally be more supportive. Clear frameworks need to be established on what best practice looks like. The **Global Investor Coalition on Mining 2030**[6] did exactly that, setting out a blueprint for a responsible mining sector by engaging across the industry and with policy makers, providing an excellent example of systems-level stewardship.

Bringing it all together, we can see a clear link from Smith to Stern and the role of asset owners: Smith explains how markets steered by the 'invisible hand' can deliver prosperity when institutions, justice and competition are in place. Stern outlines why climate change is a market failure that represents a breakdown of those conditions – and how restoring them is required to support sustainable, resilient and inclusive growth. Asset owners have a crucial role to play in restoring these conditions through their capital allocation decisions and stewardship activities, delivering on their responsibilities to beneficiaries that rely on the well-functioning of markets.

Through this perspective, stewardship is not - as some may argue - just advocacy for a better world. It is capital stewardship: the responsible use of ownership, influence and collaboration to correct persistent market failures that undermine long-term wealth creation. This approach is grounded in the same logic that Adam Smith articulated more than two centuries ago and that Lord Nicholas Stern has applied to the defining challenge of the 21st century.

6 Global Investor Commission on Mining 2030 (2025) ***Mining 2030: A 10-Year Vision and Recommendations.*** Available at: https://mining2030.org/wp-content/uploads/2026/05/MINING_2030_10-yearVision_APR25_Final.pdf

The Architecture of Trust: Tech, Decentralisation & Disintermediation

By Pardeep Cassells

Pardeep Cassells
Chief Client Officer, Access Fintech

Par brings over 15 years of experience, including leadership roles during a decade-long tenure at BNP Paribas. She has successfully built and scaled client success organisations, consistently delivering high-impact results.

Even the visionary Adam Smith is unlikely to have foreseen the world we live in 250 years after the publication of his opus, The Wealth of Nations, where an increasingly digital economy simultaneously fulfils and destabilises his vision of commercial society.

Technology advances through fintech, AI, and common platforms are radically expanding efficiency, coordination and collaboration in ways that Smith may recognise as extensions of the division of labour and the human propensity to "truck, barter and exchange"[1] whilst creating the potential to accelerate decentralisation in a manner that he would, in all likelihood, support.

However, these same innovations risk eroding Smith's essential philosophical foundations for stable and opulent commercial societies, particularly in relation to the shifting notion of 'trust' – not a word that appears consistently in Smith's work, but the concept that he would have framed in terms of "probity and punctuality", in his view the "principal virtues of a commercial nation"[2] – which is impacted by new data, new sources of information, and new tellers of truths.

1 Adam Smith, *An Inquiry Into the Nature and Causes of the Wealth of Nations* (Cannan ed.), vol. 1, Book I, Chapter II.
2 Adam Smith, *Lectures on Jurisprudence* (Report of 1766), ed. R. L. Meek, D. D. Raphael & P. G. Stein (Oxford: Clarendon Press, 1978), pp. 538–9.

Adam Smith's unique perspective as both political economist and moral philosopher has not only endured, but provided guiding principles and ethical touchpoints as markets have evolved beyond recognition, allowing us to consider today's digital economy through a different lens.

From the earliest formation of local communities, which required trust at an individual level, through community growth and subsequent formalisation via adoption of intermediaries such as governments and legal systems, trust has historically been a human endeavour incorporating uniquely human gestures – handshakes, clinking glasses, signing documents – and human facets such as accountability, reputation, moral certitude.

The 21st century digital economy is reshaping the nature of trust. This is seen most clearly as algorithms replace human judgement, blockchain replaces trusted ledgers, and decentralised systems and processes challenge centralised mediation and oversight. In a world of digital and distributed trust, the traditional interpersonal and institutional concept could be seen to be moving increasingly towards re-mediating around technology, and beyond that into so-called 'trustless' systems.

At the crossroads where finance and governance that Smith would have recognised meets a rapidly evolving technology landscape he could not have imagined lies the question of whether the delicate architecture of trust he believed was essential for markets to thrive can persist. And, if so, how?

Re-mediating trust

Smith's moral sentiment that successful markets require ethical actors – "Society may subsist among different men, as among different merchants, from a sense of its utility, without any mutual love or affection… [but] society, however, cannot subsist among those who are at all times ready to hurt and injure one another"[3] – underpins the position that trust must be a foundation for ongoing success of the digital ecosystem, especially as disintermediation and decentralisation evolve.

3 Adam Smith, *The Theory of Moral Sentiments*, Part II, Section II, Chapter III.

This, alongside Smith's premise that commerce depends on predictability, legitimacy, norms, and "justice", which he describes as "the main pillar that upholds the whole edifice. If it is removed, the great, the immense fabric of human society… must in a moment crumble into atoms,"[4] while commercial society depends on repeated exchange, interdependence, and mutual reliance leads to the thought that markets are not capable of being sustained without a core of both moral culture and functionally trustworthy institutions. Two components that have, until now, been entirely grounded in humanity and community.

Given that digital economies are distinct and detached from traditional social relations, this already fragile balance – the architecture of trust within the economic world – becomes problematic.

At a minimum, trust needs to be re-mediated from institutions that have long been subjected to compliance protocols and regulation to code, which is only just beginning to be considered through this lens, for these advances to be sustained and achieve the possibility of truly extending commercial liberty through reduction of centralisation and costly intermediation.

The starting point, then, is with the organisations themselves. Do banks trust their own code? Do they trust the code and the algorithms of their service providers? If trust exists only in part, or only for some providers, then this could see a concentration of market power as trust becomes a commodity that leads to recentralisation and potentially even a monopolistic environment.

This is the challenge that today's fintechs are already facing. The process of securing client trust as services evolve to leverage code-driven decisions is seeing dramatic revisions to information security questionnaires, the introduction of specific compliance checks in relation to AI, and contractual overhauls to determine what technology can be used, over what data, and to assert ownership of the output.

4 Adam Smith, *The Theory of Moral Sentiments*, Part II, Section II, Chapter III.

The starting point of these discussions within the capital markets landscape is to prohibit – or at least significantly limit – community access or learning from AI models, potentially shattering the concept that AI will lead to democratisation across the sector and certainly highlighting that trust needs to be newly established rather than simply transferred from societal or organisational to code.

In the absence of shared governance, each market participant comes to the fore with their own questions and their own guidelines. This variance and rapidly increasing demand is likely to curtail the ability of smaller fintechs to successfully navigate this evolving landscape and could instead see them crushed under the weight of spiralling compliance and contractual reviews rather than being able to use new technology to accelerate growth.

Faced with competition from 'trusted' technology behemoths such as AWS or Apple[5] in addition to established market infrastructure providers such as DTCC and self-owned infrastructure including BlackRock's Aladdin, a lack of trust in (or ability to quickly prove trustworthiness by) smaller providers could see markets captured by what Smith would have recognised as "an order of men, whose interest is never exactly the same with that of the public, who have generally an interest to deceive and even to oppress the public,"[6] at least in the short term.

The trade-off is that established platforms reduce friction, increase convenience, lower the barrier to entry through targeted pricing models, and centralise information in a manner that can enable community access and collaboration. This friction shows that true decentralisation may be harder to achieve than more utopian narratives would suggest.

A route to progress could be using the combination of this established organisational experience and market influence to set the baselines for trust in code, algorithms and AI usage. Viewed less pessimistically, this could also be seen as part of a natural cycle: newcomers present as competition

5 J. Monteiro, "Apple, Google, Amazon: Every Company Wants to Become a Fintech Now", *Medium.* https://medium.com/@joaomonteiroofficial/apple-google-amazon-every-company-wants-to-become-a-fintech-now-66bf39c9707b

6 Adam Smith, *An Inquiry Into the Nature and Causes of the Wealth of Nations* (Cannan ed.), vol. 1, Book I, Chapter XI, Conclusion of the Chapter.

in a more stable environment and with prior knowledge of the initial rules of engagement that allow them to create trust in their own right, and then push boundaries through innovation.

Can code truly substitute for moral trust?

The evolution of trust in this space may first come from the market participants themselves wielding power to hold providers of code accountable, and provider willingness to engage in the community underpinning the digital environment. As much as Smith believed that "People of the same trade seldom meet together…,"[7] this is not the case in the financial technology sector where clients frequently invest in the platforms they use and then influence and guide them through board representation. Cross-industry working groups and mutualised industry bodies such as SIFMA, ISITC, and AFME provide further opportunities for people of this particular trade to meet together, often to innovate within guardrails and in close collaboration across users and their service providers.

Major market infrastructure such as DTCC and SWIFT[8] are true cooperatives, enabling trust to persist despite facing a different level of centralised accountability. Partnerships between these established organisations (and, in fact, BlackRock's Aladdin,[9] SimCorp[10] and many others) and start-ups / scale-ups offer the opportunity for a hybrid model of (de)centralisation where data may be available to the community – i.e. centralised - while specific specialist services are available at a provider level - i.e. decentralised. Trust shared through connection and inter-operation.

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7 Adam Smith, *An Inquiry Into the Nature and Causes of the Wealth of Nations* (Cannan ed.), vol. 1, Book I, Chapter X, Part II.

8 SWIFT is subject to cooperative oversight by the G-10 central banks under the lead of the National Bank of Belgium since 1998. See SWIFT, "Swift Oversight", https://www.swift.com/about-us/organisation-governance/swift-oversight.

9 AccessFintech, "BlackRock and AccessFintech Announce Strategic Partnership to Enhance Post-Trade Connectivity and Workflows", 24 November 2025. https://www.accessfintech.com/blackrock-and-access-fintech-announce-strategic-partnership/

10 AccessFintech, "SimCorp accelerates buy side data aggregation and normalization with AccessFintech partnership", 21 November 2022. https://accessfintech.com/simcorp-accelerates-buy-side-data-aggregation-and-normalization-with-accessfintech-partnership/

However, it is fair to say that this is still organisational or human trust rather than trust in code and it is likely that the two will continue to be conflated. The conflation is deeper still, running beyond institutional architecture down to the individual decisions that code is beginning to make on our behalf.

The most important example of this challenge to date may be Sam Bankman-Fried's FTX, the cryptocurrency exchange whose November 2022 collapse left over $10 billion in customer funds unaccounted for and ultimately led to its founder facing a lengthy prison sentence for what prosecutors described as "one of the biggest financial frauds in American history."[11]

Crypto's foundational pitch — the now-aphoristic "don't trust, verify" — promised exactly the kind of code-replacing-institutions infrastructure that, on a generous reading, Smith might recognise as the pinnacle of disintermediated commercial liberty. In reality, FTX was a centralised exchange, a custodian, a black-box ledger, and a brand that converted celebrity endorsement into balance-sheet credibility.[12]

In the gap between its marketing of trustworthiness and the absence of any verifiable segregation between customer assets and Alameda Research's trading book[13] it demonstrated that the 'trustless' scaffolding around crypto in fact rested on a traditional and deeply human foundation of trust extended to its founder, its custody arrangements, and its accounting.

The collapse of FTX did not expose a failure of code - it exposed the failure of diligence, of "the faith of contracts,"[14] and those Smithian virtues of trust that the service had been marketed as rendering obsolete. That the

11 United States Department of Justice, "Samuel Bankman-Fried Sentenced to 25 Years for His Orchestration of Multiple Fraudulent Schemes", press release, 28 March 2024. https://www.justice.gov/archives/opa/pr/samuel-bankman-fried-sentenced-25-years-his-orchestration-multiple-fraudulent-schemes

12 FTX's "Crypto. FTX. You in?" campaign featured Tom Brady, Gisele Bündchen and others; see "FTX", *Wikipedia*, https://en.wikipedia.org/wiki/FTX.

13 Commodity Futures Trading Commission, "CFTC Charges Sam Bankman-Fried, FTX Trading and Alameda with Fraud and Material Misrepresentations", press release no. 8638-22, 13 December 2022. https://www.cftc.gov/PressRoom/PressReleases/8638-22

14 Adam Smith, *An Inquiry Into the Nature and Causes of the Wealth of Nations* (Cannan ed.), Book V, Chapter III ("Of Public Debts").

resolution of the situation required the input of that most traditional of intermediaries – the legal system[15] - is the point most worth considering because the architecture of trust did not migrate from human to code. Instead, the institutional layer required to mediate the gap between the two was reinforced.

Increasingly, AI allocates labour, controls visibility, influences markets through algorithmic trading, 'recommendations', and predictive policies as well as CV reviews leading to, effectively, algorithm-driven hiring decisions.

The moral judgement concern here revolves around who is encoding values to these systems and decisive outputs. Who is governing these digital infrastructures and how can markets remain morally accountable when decisions are being made by machines?

More broadly, how does Smith's version of commercial society survive when we automate and outsource our moral judgement and trust?

A clear case in point is the 2019 Apple Card incident, when the entrepreneur David Heinemeier Hansson publicly demonstrated that the credit limit offered to him by the Apple Card algorithm was twenty times that offered to his wife whose financial profile was materially the same. Apple co-founder Steve Wozniak subsequently reported a tenfold disparity of his own.[16] The New York State Department of Financial Services ultimately found no evidence of disparate impact in the Goldman Sachs' underwriting and concluded that the decisions were lawful, although the regulator observed that credit-scoring models and anti-discrimination legislation need a refresh.[17]

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15 *United States v. Samuel Bankman-Fried*, S.D.N.Y., conviction 2 November 2023; sentencing 28 March 2024 (Kaplan J.).

16 "Apple Card algorithm sparks gender bias allegations against Goldman Sachs", *Washington Post*, 11 November 2019. https://www.washingtonpost.com/business/2019/11/11/apple-card-algorithm-sparks-gender-bias-allegations-against-goldman-sachs/

17 "Goldman cleared of bias claims in NYDFS's Apple Card probe", *Banking Dive*, 23 March 2021. https://www.bankingdive.com/news/goldman-sachs-gender-bias-claims-apple-card-women-new-york-dfs/597273/

A further illustration of the same moral accountability challenge can be seen in Amazon's experimental AI recruiting tool. This began development in 2014 and was intended as a mechanism to manage the first phase of assessment of applications by ranking candidates against ten years of historic résumé data. By 2017 the company had abandoned the project after engineers found that, because the training cohort was overwhelmingly male, the model had learned to systematically penalise applications containing the word "women's" and to mark down graduates of certain all-female colleges. Even after Amazon attempted to neutralise specific terms, the company lost confidence that the system was gender-neutral.[18]

This does not mean that engineers were ill-intentioned, but that the moral judgement implicit in the question "what does a desirable hire look like?" had been outsourced to an algorithm founded in past behaviour – and the past, certainly in technology recruitment, is not a morally neutral data set, but an unfortunately biased baseline.

Together, these cases expose the deeper Smithian problem rather than resolving it: who, in a digital economy where credit and hiring decisions are made by algorithms at machine speed, plays the role of the impartial spectator able to judge whether code's outputs are just? This is a fundamental dichotomy where the desire for real-time decisions, real-time trading, real-time access to answers may need to be delayed by just a moment for validation by an impartial spectator – the 'human in the loop'. The lack of moral rigour inherent in an algorithm-driven output, and the associated risk of subconscious bias growing over time, requires serious and ongoing attention.

It is likely that, at least into the immediate future, the question of trust will return time and again to organisational trust or trust within the human sphere, which depends upon sympathy, contextual reasoning, and moral conduct. Comparing this to algorithms that optimise efficiency and prediction without being able to easily reproduce ethical deliberation leads

18 J. Dastin, "Amazon scraps secret AI recruiting tool that showed bias against women", *Reuters*, 10 October 2018; see also K. Hao, "Amazon ditched AI recruitment software because it was biased against women", *MIT Technology Review*, 10 October 2018, https://www.technologyreview.com/2018/10/10/139858/amazon-ditched-ai-recruitment-software-because-it-was-biased-against-women/

to the question of how trust can exist or persist in a moral vacuum, if a moral vacuum is what we have as technology advances.

A starting point to ensuring that commercial societies remain free, prosperous, and socially legitimate may be to look at the moral, institutional, and civic changes required in this new digital world.

Centralised regulation ensuring that the code's outputs are judged by the impartial spectator, and held to a standard as a human output would be, is likely to be key and even here Smith prevails given that justice is the centralising function he consistently defended.

Institutional and individual acceptance of this new responsibility, including appropriately managing and overseeing code output, rather than 'blaming' code[19] as a way of side-stepping accountability is critical. Awareness of how human input impacts code output through subconscious bias, as in the Amazon CV screening example, and proactively offsetting those biases to ensure ongoing equality and prosperity for all – Smith reminds us that "no society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable"[20] – must be the responsibility of each and every individual active in this space.

Failure to introduce such checks and balances or, going beyond that, acceptance that individual accountability no longer exists because code is the ultimate decision-maker, risks leading to what Smith is likely to have seen as a societal breakdown. The final result could be an unsympathetic and unprincipled world in which men "would, like wild beasts, be at all times ready to fly upon [their fellow man]; and a man would enter an assembly of men as he enters a den of lions."[21]

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19 On corporate attempts to disclaim responsibility for AI-generated errors, see *Moffatt v. Air Canada*, 2024 BCCRT 149, in which the British Columbia Civil Resolution Tribunal held the airline liable for misinformation provided by its chatbot, rejecting Air Canada's submission that the chatbot was "a separate legal entity that is responsible for its own actions".
20 Adam Smith, *An Inquiry Into the Nature and Causes of the Wealth of Nations* (Cannan ed.), vol. 1, Book I, Chapter VIII ("Of the Wages of Labour").
21 Adam Smith, *The Theory of Moral Sentiments*, Part II, Section II, Chapter III.

Critically, it cannot be the purview of a small, elite group or a monopoly to define how trust and justice will continue in this new era of digital economy – it is for all to assess, to critique, and to hold each other, and eventually the code, to account. Without this collective input, Smith's concerns about merchants conspiring against the public may yet come to pass.

Perhaps, 250 years after Smith's death the concept of trust – which Smith located in the human capacity for sympathy and the impartial spectator, "how selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him"[22] – does not need to be re-architected but thoughtfully extended and re-mediated for the 21st century digital economy.

22 Adam Smith, *The Theory of Moral Sentiments*, Part I, Section I, Chapter I.

When Price Becomes Belief: Markets, Narratives, and the Growth Imperative

By Hans Stegeman

Hans Stegeman

Chief Economist, Triodos Bank

Hans Stegeman is the Chief Economist at Triodos Bank, where he oversees economic and sustainability research, as well as Triodos' impact strategy. His work centres on the fundamental belief that our economic system requires significant changes, with the financial sector playing a pivotal role in this transformation. Prior to joining Triodos, he held various positions at Rabobank, the Netherlands Bureau for Economic Policy Analysis (CPB), and started his career at a the labour union. In addition to his role as Chief Economist, Hans is an avid writer, contributing columns and essays to various media outlets and maintaining his own blog.

In 2025, the aggregate market capitalisation of all cryptocurrencies briefly exceeded $4.3 trillion, surpassing the GDP of the United Kingdom. Most of these tokens produced nothing, delivered nothing, and were backed by nothing but the collective conviction that others would pay more for them tomorrow. A few months later, more than a third of that value had evaporated. It was not unique. It was entirely legible, if you know where to look.

I have spent much of my career as an economist asking an uncomfortable question: why does our system so consistently mistake financial claims for real wealth? The cryptocurrency episode did not surprise me. Neither did the dot-com collapse a generation earlier, or the housing bubble before that. What surprises me, still, is our collective amnesia. Living in the Netherlands, we are never allowed to forget the Tulip mania of the seventeenth century, and yet we keep forgetting. Each time, we convince ourselves the story is different. Each time, it is not.[1]

Adam Smith knew where to look. In The Wealth of Nations, he warned of the self-reinforcing dangers of speculative enthusiasm, of merchants and manufacturers who “impose on the public” and mistake the pursuit of profit for the creation of wealth.[2] But Smith never separated the two. In The Theory of Moral Sentiments, written seventeen years earlier and revised until the year of his death, he argued that markets are not free-floating mechanisms of price discovery. They are embedded in social relationships, in norms, in sympathy, and in the judgement of what he called the “impartial spectator.”[3] Strip the morality from the market, and what you are left with is not capitalism. It starts to look less like capitalism and more like a casino with good branding.

What has happened over the past two centuries is exactly that stripping. Economics absorbed the invisible hand and discarded the moral sentiment. The result is a system that is, in theory, efficient and, in practice, periodically unhinged – driven by hubris rather than social purpose.

The Story Is the Asset

Robert Shiller has spent much of his career explaining why. In his 2017 Presidential Address to the American Economic Association, he argued that economic fluctuations cannot be understood without taking seriously the stories that circulate through markets and societies. Narratives, he showed, spread like viruses – they go viral, mutate, and sometimes cause economic epidemics.[4] The dot-com boom was not driven primarily by

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1 Kindleberger, C. P., & Aliber, R. Z. (2005). *Manias, Panics, and Crashes: A History of Financial Crises* (5th ed.). Wiley. The structural parallels between episodes separated by generations suggest systemic causes, not mere coincidence.

2 Smith, A. (1776). *An Inquiry into the Nature and Causes of the Wealth of Nations*, Book I, Chapter XI. W. Strahan & T. Cadell. [Glasgow Edition, eds. R. H. Campbell & A. S. Skinner, Liberty Fund, 1981.]

3 Smith, A. (1759). *The Theory of Moral Sentiments*, Part III, Chapter 3. A. Millar. The two works were always intended as complements: the invisible hand of the Wealth of Nations functions justly only within the moral framework of the Theory of Moral Sentiments.

4 Shiller, R. J. (2017). Narrative economics. American Economic Review, 107(4), 967–1004. Developed further in Shiller, R. J. (2019). Narrative economics: How stories go viral and drive major economic events. Princeton University Press.

rational discounting of future cash flows. It was driven by a story: that the internet was changing everything, that traditional valuation was obsolete, that scarcity had been abolished by code. Bitcoin's rise was driven by a different but structurally identical story: sovereignty from the state, digital gold, the end of inflation. And today's AI frenzy is driven by yet another: that artificial general intelligence is imminent, that productivity will be permanently transformed, and that whoever bets wrong now will be left behind forever.

Markets price stories. The question Smith would ask is whether those stories are true, and in whose interest they are being told.

When Price Becomes Proof

Modern financial markets have developed an almost theological relationship with price. Price is not just information; it becomes judgement. If something is expensive, it must be worth it. If it keeps rising, it must be rising for a reason. Doubt is treated as heresy. It sounds exaggerated, but a large part of our economic thinking rests on exactly that reflex.

From John Stuart Mill onwards, value came to be defined as aggregated preference: people choose, prices emerge, and those prices are taken to reflect what society values.[5] The Marginalist Revolution of the 1870s formalised this into a mathematical science of utility, stripping out the social and moral context that even Mill had retained. What remained was clean, powerful, and in key respects false: value is what the market says it is.[6]

But markets do not simply aggregate preferences. They reflect power, narratives, access, and constraints. People pay for what is available to them, and what they believe others will pay for next. That is not the same as value. It is a snapshot of a system with its own internal logic and its own stories.

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5 Mill, J. S. (1863). Utilitarianism. Parker, Son, and Bourn. The utilitarian tradition originates with Bentham but it was Mill who gave it the form that most directly shaped economic methodology.

6 The Marginalist Revolution of the 1870s – Jevons in England, Walras in Switzerland, Menger in Austria – shifted economics from questions of production and distribution to individual utility at the margin, stripping out the moral and social context that even Mill had retained.

The consequences are most visible in finance. Mariana Mazzucato has described this as the shift from value creation to value extraction: activities that extract value start to look identical to those that create it.[7] Rising asset prices are treated as proof of contribution. Financial engineering becomes "efficiency." Data extraction becomes "innovation." The language follows the price, and then reinforces it. As Amartya Sen showed, even in stable conditions preferences are shaped by institutions, social norms, and power. Markets reflect those constraints as much as they reveal underlying values.[8]

In speculative markets, the gap between price and value becomes impossible to ignore. A token backed by little more than expectation reaches billions in market capitalisation. That price tells us nothing about productivity, use value or collective welfare. It tells us something about belief: about who expects to sell to whom, and when. The invisible hand is no longer coordinating value. It is amplifying faith.

The Growth Machine and Its Priests

There is a deeper architecture beneath individual bubbles that keeps producing them. Capitalism contains what scholars have called a structural growth imperative.[9] Firms must grow to satisfy capital; capital must grow to justify investment; market size must grow to avoid unemployment; tax income must grow to pay for social security, health care and education. This is the growth machine. And it needs fuel. When real productive growth is insufficient – when the economy cannot generate enough genuine value to satisfy the claims of capital – the machine turns to the next best thing: commodification of nature, rising debt, financial engineering, deregulation.

This growth imperative is not merely a policy choice, nor the attribute of individual actors. It is an emergent property of the system itself: invisible

7 Mazzucato, M. (2018). *The Value of Everything: Making and Taking in the Global Economy*. Allen Lane.

8 Sen, A. (2009). *The Idea of Justice*. Allen Lane. See also Sen, A. (1999). Development as freedom. Oxford University Press.

9 Jackson, T. (2009). *Prosperity Without Growth: Economics for a Finite Planet*. Earthscan. Binswanger, M. (2009). Is there a growth imperative in capitalist economies? A circular flow perspective. Journal of Post Keynesian Economics, 31(4), 707–727. Hagens, N. J. (2020). Economics for the future – beyond the superorganism. Ecological Economics, 169, 106520.

at the micro level, but overwhelming at the macro.[10] Individual firms are not irrational when they chase growth at any cost. The system rewards them for it.

Bubbles are not market failures in the usual sense. They are the growth machine running on stories rather than on productive activity – a substitution that is rational for each individual participant, ruinous in aggregate, and structurally incentivised by a financial system that profits from transactions regardless of whether those transactions create lasting value.[11]

Smith saw the danger in monopolists and rent-seekers. Shiller sees it in narratives. Both are right, and together they describe the same phenomenon: the systematic confusion of value creation with value extraction, of genuine wealth with inflated claims upon it. The Religion of Growth – the unexamined faith that more is always better, that rising prices signal rising prosperity, that the market's verdict is final – is the ideology, the overarching narrative, that makes this confusion not only possible but virtuous.

The Impartial Spectator Returns

What would it take to break the spell? Smith's answer in The Theory of Moral Sentiments was the cultivation of an impartial spectator: the internal voice that asks not whether something is profitable or popular, but whether it is just. Not whether the story is compelling, but whether it is true.

This is not a call to abandon markets. Smith was a moralist who understood that markets, properly constituted, could be powerful engines of human flourishing. But "properly constituted" does enormous work in that sentence. It requires institutions with the independence to ask whether stories match reality before prices reflect them. It requires transparency – not the kind produced by mandatory disclosure documents that nobody reads, but the kind that enables genuine scrutiny of claims. It requires a financial system that takes seriously the difference between value and valuation, between

10 Stegeman, H. (2025). *Transforming Economics for Sustainability*, Chapters 3 and 5.
11 Galbraith, J. K. (1954). *The Great Crash* 1929. Houghton Mifflin. Galbraith's observation that the terminal phase of a bubble is defended not by analysis but by the social cost of dissent remains the most accurate description of the phenomenon.

wealth creation and sophisticated rent extraction.[12] And to be clear: the current system does not do that.

It also requires a philosophical reckoning with the utilitarian framework that gave us the price-equals-value equation in the first place. Not its wholesale abandonment – markets do aggregate a great deal of genuine information – but its dethroning from the position of exclusive arbiter of social worth. Capabilities that cannot be priced, relationships that resist monetisation, ecosystems whose value is only apparent when they are gone: they are the foundation on which any functional market rests. A market that cannot account for them will keep mistaking their destruction for growth.

Narratives are powerful precisely because they speak to hope and fear and the very human desire to be on the right side of history. The investor who stands back and asks for evidence of sustainable returns faces real social costs: ridicule, missed short-term gains, the loneliness of the sceptic. The impartial spectator has always been difficult to hear above the roar of the crowd.

But the crowd is not always wrong because it is a crowd. It is wrong when the incentive structures of financial markets systematically reward storytelling over substance, when the architects of narratives profit regardless of outcomes, and when the costs of the inevitable correction fall on those who had the least to do with creating the bubble. That is not a market failure. It is a moral failure, dressed up in the language of price discovery.

Two hundred and fifty years after The Wealth of Nations, that is still the central moral problem of market capitalism. Smith identified it, but we have yet to solve it. The religion of growth endures. And so do the ruin and the amnesia that follow each of its prophets into the temple.

12 Akerlof, G. A., & Shiller, R. J. (2009). *Animal Spirits: How Human Psychology Drives the Economy, and Why it Matters for Global Capitalism.* Princeton University Press.

Beyond Growth: Purpose in a Finite World

By Joanna Walker

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Jo is Group Director of Responsible Business at Royal London - the UK's largest mutual life, pensions and investment company - where she leads the Group's approach to sustainability, stewardship, responsible investment and social impact. She joined Royal London in 2019 from Virgin Money as its first sustainability lead and has since driven the development of the Group's climate commitments, transition plan and stewardship strategy.

With over a decade of experience in sustainability and responsible business, Jo focuses on the role of purpose led financial institutions in delivering long-term value for customers, wider society and the environment. She is also Chair of the ABI's Climate Change Working Group and a member of the UKSIF Policy Committee.

Introduction

Adam Smith is often remembered as the founding theorist of growth, but this tells only part of his story. Smith's economics were grounded in a wider moral philosophy concerned with human flourishing, restraint and social cohesion. 'The Wealth of Nations'[1] cannot be separated from 'The Theory of Moral Sentiments'.[2] Markets, for Smith, were not morally self-justifying - they derived legitimacy from the contribution they made to society.

1 Smith, A. (1776) *The Wealth of Nations.*
2 Smith, A. (1759) *The Theory of Moral Sentiments.*

Smith understood markets as social institutions, not abstract mechanisms. In 'The Theory of Moral Sentiments', he emphasised sympathy, fairness and restraint – qualities that enable cooperation and trust. In 'The Wealth of Nations', self-interest drives productivity, but only within social norms and institutional rules that limit exploitation, monopoly and moral collapse. Growth mattered to Smith because it relieved scarcity and improved lives. It was a means, not an end.

Two and a half centuries on, economic systems have delivered material progress but they now operate under very different conditions. Economic activity today challenges the finite resources of our planet, under ecological and social constraints that are becoming increasingly binding. A singular focus on growth, once a reasonable proxy for progress, now risks obscuring long-term systemic risk and misdirecting capital.

> *"How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others."*
>
> — The Theory of Moral Sentiments, Part I,
> Section I, Chapter I (Smith, 1759)

Where expansion remains the dominant measure, there is a growing risk that value is mis read. Short term output can mask longer term pressures on balance sheets, supply chains and public finances, potentially leaving material risks insufficiently reflected in decision making. Reimagining the purpose of markets is therefore not only an ethical concern, but a practical one tied to their continued effectiveness. The question financial markets must now address is no longer simply about how growth can be accelerated, but how success should be defined.

Beyond growth

Growth is neither good nor bad in and of itself. But it is insufficient as a singular organising goal or measure of success. When treated as a representation of progress in all contexts, growth can crowd out other sources of long-term value – resilience, stability and shared prosperity – that our economy also depends upon. Tim Jackson's framing in 'Prosperity

Without Growth' remains instructive: prosperity is "the ability to flourish within limits."[3]

As highlighted in Business in the Community's 'Creating a Future Ready Economy' report, tackling our biggest environmental problems creates opportunities to drive economic growth in ways that build resilient, shared prosperity.[4] However, growth alone as the prevailing measure of success is not well matched to long term prosperity in today's world.

Climate change brings this misalignment into sharp focus. It is no longer simply a long term environmental concern, but a near term source of economic and financial risk. Actuarial analysis in 'The Emperor's New Climate Scenarios'[5] and 'PARASOL: Lost?'[6] published by the Institute and Faculty of Actuaries, has shown that many widely used climate scenarios tend to understate the scale, speed and non linear nature of climate impacts, giving a false sense of control and predictability. In future pathways characterised by higher levels of warming, particularly where temperature rise exceeds 2.5–3°C, markets are unlikely to face a sequence of isolated shocks. Instead, they operate under conditions of sustained strain, deep uncertainty and compounding risk. Physical impacts accumulate across regions and sectors. Transition pathways become more abrupt and contested. Long term liabilities become harder to anchor. Under these conditions, asset values are more difficult to stabilise, traditional risk sharing mechanisms weaken, and increasing proportions of capital are diverted towards reactive adaptation rather than productive investment.

If growth is no longer a reliable guide to progress, a broader understanding of value is required. Perspectives such as Kate Raworth's 'Doughnut

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3 Jackson T. (2016) *Prosperity Without Growth: Foundations for the Economy of Tomorrow*. 2nd ed. London: Routledge.
4 Business in the Community (2025) *Creating a Future Ready Economy*. Available at: https://www.bitc.org.uk/report/creating-a-future-ready-economy/ (Accessed 1 May 2026).
5 Institute and Faculty of Actuaries (2023) *The Emperor's New Climate Scenarios*. Available at: https://www.actuaries.org.uk/system/files/field/document/the-emperor-s-new-climate-scenarios_ifoa_23.pdf (Accessed 1 May 2026).
6 Sandy Trust (2026) *Parasol Lost*. Available at: https://actuaries.org.uk/media/isvotyer/parasol-lost.pdf (Accessed 1 May 2026).

Economics[7] help illustrate the shift: economic activity must operate above a social foundation and within ecological limits. This framing is less about ideology than orientation. It points towards judging success over longer time horizons and across wider dimensions such as productivity per unit of resource, resilience of systems, workforce capability and the maintenance of natural and social capital. These are not "non-financial" considerations. They are preconditions for sustainable financial performance.

Purpose alongside profit

Financial institutions play a central role in shaping how markets respond to long term challenges. Where capital allocation is driven primarily by short term extraction, pressures can build that weaken resilience over time. Conversely, institutions oriented towards durability, sufficiency and long term value creation may be better able to allocate capital effectively under constraint. By balancing purpose alongside profit, financial institutions can support the conditions that allow markets to function well – strengthening resilience, supporting shared prosperity and enabling the system as a whole to better withstand shocks.

This shift places corporate purpose at the centre of economic logic. Purpose, properly understood, is not branding or a value statement. It is clarity about *why* an organisation exists and whom it serves over time. Profit remains essential, but as an outcome of delivering value rather than the sole objective.

When purpose is truly embedded – legally, culturally and operationally – it can change decision-making. Boards can weigh trade-offs explicitly rather than defaulting to short-term financial return. Decision-making time horizons can lengthen. Capital can be allocated with greater regard for endurance rather than acceleration alone.

> *"Addressing social and environmental challenges is not separate from economic success; it is increasingly central to how capital is deployed, risks are managed and long term value is created across the economy."*

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7 Raworth, K. (2017) *Doughnut Economics: Seven Ways to Think Like a 21st Century Economist*. London: Random House Business.

— Creating a Future Ready Economy (Business in the Community, 2025)

Organisations built for long term resilience rather than constant acceleration are also better able to handle uncertainty. Purpose acts as a kind of economic infrastructure, shaping behaviour and decisions in ways that support markets over time.

A mutual perspective

Mutuals, and other customer owned business models, have the benefit of being able to focus on long-term resilience, and pursuing both growth and long-term outcomes for members, customers and wider society.

A defining feature of customer-owned organisations is the alignment created by ownership and governance. Because profits are shared with members or reinvested to improve products, services and resilience, success is distributed rather than extracted. This helps align commercial decision-making with the long-term interests of customers, reducing incentives for short-term optimisation at the expense of longer-term value.

Collaborative research between Royal London, Mutuo and the University of Oxford illustrated further 'truths' from across the sector globally. It demonstrates that alongside deriving further value from profits, customer-owned companies typically contribute to corporate diversity and economic resilience. By demonstrating patient, steady and socially productive forms of commercial behaviour, they frequently pioneer new markets and serve groups overlooked by mainstream providers. They also often create value through place supporting presence, rootedness and local economic anchoring.[8]

Some of the most significant value generated by these models is happening quietly. They can therefore be poorly captured by conventional metrics and harder to measure quantitatively. From a market perspective, this highlights a potential measurement gap. When value is defined narrowly as short-term

8 Centre on Mutual and Co-owned Business, Kellogg College, University of Oxford (2026) *People, Place and the Economy: the Social Value of Mutuals*. Available at: https://www.kellogg.ox.ac.uk/wp-content/uploads/2026/05/People-Place-Economy-Social-Value-Mutuals.pdf (Accessed 4 Jun 2026).

financial return, patient and member-aligned models can appear inefficient. When value is assessed over time – incorporating risk, resilience and the distribution of outcomes – the picture changes. What looks conservative becomes robust. What looks slower becomes sustainable.

This is not an argument for replacing investor-owned enterprise but for recognising the value of ownership diversity. It is widely agreed that economies benefit from diverse ownership structures.[9] When different models operate alongside one another, they can have a benchmarking effect - moderating excesses, raising expectations of responsible behaviour and shaping the positive evolution of industries over time.

Incorporating long term risk, resilience and resource constraints into mainstream decision making is not a constraint on markets; it is a means of strengthening them. Purpose led approaches help markets allocate capital in ways that remain viable in uncertain times, rather than assuming that future conditions will resemble the past.

In conclusion

Adam Smith did not defend markets as ends in and of themselves. He defended them because, under the right conditions, they improved lives. Those conditions included moral restraint, institutional discipline, and a recognition that economic activity is embedded within society.

> "No *society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable.*"
>
> — The Theory of Moral Sentiments, Part I, Chapter I (Smith, 1759)

Put simply, the task is to balance the needs of the present with the responsibilities we hold to the future. From my perspective working within Royal London, this balance is captured in our own Purpose: *Protecting today, investing in tomorrow. Together we are mutually responsible.* Ensuring that people retiring tomorrow have the financial security they need, while those retiring decades from now inherit a liveable planet, is not a trade off but

9 Social Market Foundation (2023) *Mutual Understanding: the Modern Mutual Sector and How to Support It.* Available at: https://www.smf.co.uk/publications/modern-mutual-sector-uk/

a shared obligation. By widening our understanding of success beyond growth alone, markets can remain capable of delivering long-term stability and prosperity on a finite planet.

Epilogue - Breadth, Depth and the Rekindling of Realistic Hope

By Lord John Alderdice

Lord John Alderdice FRCPsych
UK Trade Envoy for Azerbaijan and Central Asia

John, Lord Alderdice is a psychoanalytic psychiatrist by profession, a life member of the House of Lords at Westminster, where he sits on the Select Committee for International Relations and Defence, and a former president, and now President of Honour, of Liberal International - the world federation of some 100 liberal political parties. As leader of the Alliance Party, he was a key negotiator of the 1998 Belfast/Good Friday Agreement, then appointed the first Speaker of the new Northern Ireland Assembly, and subsequently was one of four international commissioners overseeing security normalization. He is now a Senior Research Fellow at Harris Manchester College, Oxford, an Honorary Fellow at Pembroke College, Oxford, a Visiting Fellow at Jesus College, Cambridge, and a Professor of Practice at both Queens University Belfast and the University of Wales Trinity St David. He lectures, consults, and writes on intractable violent political conflict, religious faith and fundamentalism, and the problems of indigenous peoples and is the recipient of many honorary degrees and professorships. He is the founding chair of The Concord Foundation, and as Co-chair of the All-Party Parliamentary Group on Islamic and Ethical Finance at Westminster and through his support of GEFI, John has a significant role in promoting ethical finance and pioneering in the world's first interfaith shared-values framework on finance.

In this 250th anniversary year we have been reminding ourselves of the significance of Adam Smith's remarkable achievement - the publication of "*The Wealth of Nations*" in 1776. In it he provided a detailed account of how societies can best function economically for the benefit of their people, and while politics, technology and society have changed hugely over those two and a half centuries the fundamental principles are as relevant now as they were then.

However, the five books that make up this compendium only set out some of his thinking. In his excellent book, "*Adam Smith: What He Thought and Why it Matters*", Jesse Norman, the Conservative MP and philosopher, draws attention to the earlier sets of lectures on logic and moral philosophy that Smith gave at Glasgow University in the 1750's. In these lectures he set out four key strands of thinking. The first was natural theology; the second focussed on ethics, and laid out the doctrines that he subsequently published in his "*Theory of Moral Sentiments*" in 1759; in the third part he set down the elements of his thinking on justice and jurisprudence, but like the first part this was never completed; however the fourth was expanded into the great work, that he published in 1776 under the title, "*An Enquiry in the Nature and Causes of the Wealth of Nations*". As far as Adam Smith was concerned, all four were key elements of his thinking, but dealing adequately with all aspects of them was more than he could manage given the detailed way that he wanted to address them, and at the end of his life he expressed some regret about this.

It was not that the fundamental attitudes that informed his approach to life and society could not be expressed concisely. In 1885, the great Victorian Prime Minister, William Ewart Gladstone, who was more than capable of speaking and writing at great length too, when asked to say briefly why he was a liberal was able to do it in a sentence. He wrote, "The principle of liberalism is trust in the people, qualified by prudence." With those two key principles he summed up the essence of what Adam Smith had set out in detail a century earlier – it is about both wise, realistic thinking and concern for ordinary people. Concern for only one of these was not sufficient, and unfortunately, there has been a tendency, not so much to simplify Adam Smith's thinking but to ignore parts of it and to treat some of his ideas about political economy as though they could be divorced from his equally firm conviction that ordinary people matter. This was neatly summed up in 2005 by Gordon Brown when, as Chancellor of the Exchequer at that time, he gave the Hugo Young Lecture. Coming from Kirkcaldy, as Adam Smith did, he said, "I have come to understand that his '*Wealth of Nations*' was underpinned by his *Theory of Moral Sentiments*; his invisible hand depended upon the existence of a helping hand."

Adam Smith was not just developing a science of economics. He was drawing together and systemizing key observations about the realities of how human beings function and how we could be more successful. Central to this was his recognition that we are social beings. We function together in groups and while this functioning must take account of the changes in the size of our groups and communities, the need to protect ourselves from internal as well as external threats, and the increasing efficiency of our economic systems brought about by social organisation and technology, the basic reality remains that we need to take account of others if we are to survive and thrive.

In 2021, when Mark Carney published a best-selling book about what he had learnt from his studies in economics and his experiences as a central banker, first at the Bank of Canada and then at the Bank of England, the title he chose was "*Value(s)*". The context was a global economy that had not recovered from the great financial crash in 2008, and given his background at the time, we might have expected that he would focus entirely on reviewing economic matters and models. However, in choosing a title that spoke to both ethical principles and practical economics Carney offered a roadmap out of the financial chaos and towards a society that was both fairer and more workable.

Since then he has gone on to be elected Prime Minister of Canade and in a seminal speech delivered in January 2026 to the World Economic Forum's Annual Meeting in Davos he set out how there was now a rupture in the rules-based international order on which international relations had been based since the end of the Second World War, but how it was as possible as it was necessary for those countries and peoples that wanted to be successful to do so but also to live by values such as human rights, and respect for the welfare and well-being of both this generation and the next. He called for a coming together of middle powers to counter the prevailing great power rivalry with an alternative approach that would contribute to a more cooperative, fairer, and successful global society. Leaders and people around the world were excited by the honesty, courage and clarity provided by Carney's intervention and by the realistic hope that it gave. It was like the sun bursting through a dark cloud, and it was based on the same ideas and principles that made Adam Smith's writings so powerful and persuasive.

Two hundred and fifty years had passed. The British Empire had come and gone; we had seen the rise and fall of communism; the Industrial Revolution had given way to the Information Age and the development of Artificial Intelligence and a range of technologies that Adam Smith could not even have imagined. But with all the challenges and uncertainties we face today, when there is a leader who has the experience and ability to capture and convey the ideas and principles of Adam Smith, in all their breadth and depth, we can recapture hope for ourselves and our children. Adam Smith can still provide us with the foundational guidance for thinking that is both realistic and humane and by returning to what he wrote those many years ago, we can be encouraged and inspired to rethink and rebuild our societies.

GEFI Strategic Campaigns & Initiatives

The Radical Old Idea
Inspired by the Scottish Enlightenment, this platform brings together economists, policymakers, investors and academics to explore how finance can better address systemic risks, inequality, environmental challenges and societal purpose.

The Edinburgh Finance Declaration
A global interfaith initiative that establishes a shared values framework for finance, promoting stewardship and long-term thinking while advancing faith-based perspectives on responsible investment.

Path to COP
Since 2019, GEFI's Path to COP has connected financial institutions and policymakers around climate finance, supporting practical action on nature, stewardship and the just transition through research and advocacy.

SDG Products & Partnerships
GEFI works with financial institutions, stock exchanges and policymakers to develop sustainable finance solutions that mobilise capital towards the UN Sustainable Development Goals, including initiatives in sustainable sukuk, transition finance and blended finance.

Ethical Finance Summit
Launched in Edinburgh in 2015, the summit series now spans Europe, ASEAN and the Gulf region, convening leaders from finance, government and civil society to advance practical solutions in sustainable finance, responsible investment and economic resilience.