

The Idea of Investment

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(The following is based on ideas that I first read in Chapter 13 of HG Wells' A Short History of the World)

It seems to be human nature that we wish to reap more than we sow. If we direct our efforts towards a particular activity, then we expect those efforts to be rewarded- not just returned in full, but multiplied. Although instant returns for effort may be desired, our abstract abilities as humans enables us to forego immediate gratification if there is a reasonable expectation of greater returns at a later date. Historians and archaeologists suggest that this behaviour was learnt by the early civilisations as they learnt agricultural techniques. They made the connection that the seeds spilled or left while harvesting wild crops were the origins of new crops. With time, they deliberately scattered some of the seed in places and at times that seemed to give the best results. Hunter-gatherers would have learnt this, but the most productive results came to those who settled on the banks of the great rivers, such as the Nile, Tigris, Euphrates, Ganges, Indus and Yangtze that were fed mainly by the melting of the snow on distant mountains. The fact that the rise and fall of the rivers was not obviously related to local rainfall was very important in the formation of their beliefs and culture.

Conceptually, the behaviour involved in agriculture is by no means trivial and has direct equivalence in the idea of investment- *the belief that sacrifice, followed by effort over time, will be rewarded*. Imagine a scene in one of the lean years on the banks of the Nile or these other great rivers in pre-historic times. The people are hungry, but the chiefs, priests and granarians insist that some of the grain- in fact the best quality grain- is kept aside. And then, in an act that could seem like madness, all is risked as the precious grain is dug into the soil and it soon becomes inedible. If the river's waters do not rise in time to germinate and sustain the crop, then all is lost to pestilence and rot. Have faith, implore the priests. The gods will smile on us. The granarian has kept a little in reserve for a second chance, despite the temptation to sell it at a premium. And when the river does rise and floods the fields and the seeds sprout, there is more work to be done to irrigate, weed, hoe, trim and tend and keep pestilence at bay. Finally the crop can be harvested. For every grain sown, ten or more are reaped. No wonder there is much relief and merriment at the harvest festival. The necessary rituals are reinforced by sacrifices and offerings of pure people and fine produce.

What probably started out as a dim realisation of the connection between seeds sown at one time and a valuable crop at a later time, became more precise as the settlements stabilised and grew, and an economy of scale and division of labour emerged. The correlation between repeating astronomical events (number of full moons, positions of the stars, lengths of shadows) and the rise and fall of rivers without local rain, must have been hard for most people to comprehend. But the close correlations were noted by some of the clever members of the tribe, and with time the common people grew to depend on their predictions, accepting that the astronomical events were the cause of the river's fluctuations. These clever people- the proto-scientists- ultimately became the priestly class who mediated between the common people and the source of their good fortune. Thus, religions arose- a belief in sacrifice to unseen powers and a trust in the people who claimed to be able to communicate with those powers and

understood their cyclical nature. So long as the common people obeyed the priests, the gods would reward their efforts and multiply their investments.

One can also imagine the granaries as the original banks, and the granarians- the keepers of the grainstore, as the original bankers and accountants. Their task was to encourage another virtue- storage or savings, rather than sowing or investment. The granarians would be rewarded by retaining a certain proportion of the grain that they stored and protected, and probably graded the grains according to its nutritive or agricultural qualities. By themselves, they could not claim to be able to increase the amount of grain, but in league with the priests, they could maximise the likelihood of a good return from the available resources. Some of them undoubtedly became the forebears of the investment banker.

Without investment, there is no renewal. As it was with grain in ancient times, so it is with money today. If we don't *invest* we can't *harvest*. Money is used to purchase the diverse needs of innovation- people's labour, materials, tools, buildings, information and time. Resources have to be organised and effort expended before returns can be realised. The process takes time- it may take months, but often it is years. Even the best analysis of the factors of production and the likely shape of future markets has to be accompanied by a vision of a productive outcome of the innovation process and the faith that the sacrifice will be worthwhile. And a belief that scientists, engineers, financiers and economists can communicate directly with the great god called *The Economy*.

(Whether the original investment was worthwhile is a complex question. Returning to our original analogy, the Egyptians would hope that the amount of grain in the granary after the harvest to be enough for them to live well and grow plump. As a minimum, they would hope that there would be enough to at least survive and keep enough seed for next year's crop. Replacing the seed grain with enough for next year is the next fall back expectation and at least something to plant to build on is a minimum. Less than this, disaster will befall them unless an alternative source of nourishment is found. These situations have their direct analogy in modern investment.)