

# A Philosophical Approach To Wealth - Part I

The geopolitical and financial events of the last five years have changed how many investors and market commentators perceive wealth. Phrases like “long-term,” “capital allocation,” and “risk mitigation” often revolve around the concept of wealth, which remains somewhat elusive.



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**T**his ambiguity is understandable. While the notion of risk has become more tangible, the definition of wealth remains vague. Traditionally, volatility, market concentration, and the correlation among asset prices were the primary concerns. However, following the Global Financial Crisis, liquidity risks were added to this list. Since 2020, geopolitical tensions have become more pressing, and numerous other developments have contributed to the ever-expanding concept of risk.

In light of the evolving understanding of risk, what does wealth mean? Does the concept of wealth expand alongside our definitions of risk? How much does wealth relate to money, and *what kind of money*? How does it connect to other assets? What is the relationship between wealth and luxury? Are these terms synonymous or not? Ultimately, what do we truly mean by wealth?

We could attempt to answer these questions using a conventional approach, which might involve consulting well-known reports on global wealth produced annually by firms like UBS, Allianz, or Knight Frank. These reports typically define wealth as the total value of assets. However, the circumstances we face today necessitate a shift or change in our approach.

There are different types of change, but the most impactful ones can be categorised as either revolutionary or renewing. J.R.R. Tolkien, the beloved English author, articulated this distinction



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brilliantly. He argued that revolution represents a forceful break from the past, discarding old methods and traditions. We have witnessed this in historic events such as the French Revolution of 1789, as well as during the tragic upheavals of the 20th century in Russia, China, Iran, and elsewhere.

Conversely, Tolkien described renewal as the old reimagined, previous understandings and methods enriched for a world that is in constant flux. As the pre-Socratic philosopher Heraclitus observed, “*No man ever steps in the same river twice; for it's not the same river, and he's not the same man.*” Just as a river changes, so does our world.

## THE NOTION OF RENEWAL IN THE CONCEPT OF WEALTH

When we apply the idea of renewal to the concept of wealth, we combine conventional methods of evaluating wealth with a philosophical perspective. This approach aims to provide a more dynamic understanding of wealth.

*Why use philosophy as the lens through which to examine wealth?* The term “wealth” often brings to mind various concepts: money, effort, time, risk, politics, luxury, value, and knowledge. To understand whether these concepts are genuinely connected to wealth, we first need to define what we mean by “wealth.” Moreover, to achieve a comprehensive understanding, we must not only describe each of these concepts but also explore their precise relationship to wealth if such a relationship



exists. This task is fundamentally philosophical, although it may exceed the scope of our current discussion. Nonetheless, it is worthwhile to make a brave attempt at redefining wealth.

Searching for definitions of concepts was one of Socrates' primary intellectual pursuits. In many of Plato's dialogues, Socrates employs questioning to clarify notions by arriving at their definitions. However, as shown in Plato's dialogues, this method is not always productive. A potentially better, though still imperfect, approach is found in Aristotle's theory of causes, which he elaborates in his works “Physics” and “Metaphysics.”

Before we proceed, it is important to define a key term that will frequently appear in our exploration of wealth: “object.” In philosophy, an “object” refers to anything we examine. For instance, knowledge can be an object of philosophical inquiry, known as epistemology. Knowledge is abstract and intangible, while the object of examination can also be a material entity, like a bronze statue,

which Aristotle exemplifies. The crucial point is that “object” denotes what we focus our thoughts on, which, in this case, is the concept of wealth.

We begin with the material cause, which answers the question, “What is it made of?” UBS

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distinguishes between financial and non-financial wealth. *When combined, these two categories yield total wealth.* Financial wealth consists of “assets that can easily be converted to cash,” including equities, bonds, mutual funds, savings accounts, and other securities traded in financial markets.

Non-financial wealth, on the other hand, comprises “land, real estate, and other tangible assets” that cannot be readily traded on financial markets and are recommended as long-term investments, unlike financial assets, which may not be perceived similarly. Therefore, wealth consists of different types of assets. This traditional definition of wealth is not particularly novel.

Next, we examine the formal cause, which addresses the question, “What is it?” This inquiry is the most complex in philosophy, as it relates to the core of metaphysical thought. As the German thinker Martin Heidegger would argue, it concerns the question of being or existence. However, for our purposes, we need to simplify the matter. We

should ask: *What kind of object is wealth, simple or complex?* The UBS report informs us that wealth is a complex entity comprising various components known as assets. At first glance, this answer appears straightforward, *but it conceals significant complexity.*

Consider two individuals, A and B, both possessing equal wealth of \$100 million. Person A's wealth comprises 20% cash and 80% land, while Person B's wealth consists of 80% cash and 20% land. Despite both being labelled as “wealth,” is there truly no distinction between tangible and intangible assets, such as meadows, woods, gold, and the trust in government that underpins fiat money? I would contend, perhaps without causing too much controversy, that there is indeed a distinction, and our understanding of what we term “wealth” requires deeper consideration.

Meanwhile, we have the efficient cause, which addresses the question, “Where does change come from?” The simple answer, in this context, is that changes in wealth arise from fluctuations in the value of the assets that constitute that wealth. In other words, *this is a matter of value.* What determines the value of something? What influences its value, either increasing or decreasing it, so that a particular asset, be it precious metal, a painting, a plot of land, cash, or claims to future cash flows, can be regarded as part of the intricate entity we call wealth? How should we understand value as it relates to wealth?

## A RICHER UNDERSTANDING OF WEALTH

*Value is intrinsically linked to human psychology, economic activity, and legal systems.* This philosophical perspective highlights how the term “wealth” is interconnected with various concepts that need to be considered independently and then in relation to wealth itself.

Finally, we arrive at the final cause, which answers the question, “What is its purpose?” We can outline three primary aims of wealth. First, wealth offers a sense of security, acting as a safety net against the uncertainties of nations and economies. It serves as an anchor in the turbulent river of our ever-evolving world. Second, wealth acts as a source of daily income. Third, it provides resources necessary for maintaining a specific standard of living, which can vary in luxury not solely based on the changing value of the assets themselves, but also on the behaviours of those who claim ownership of these assets at any given time.

In conclusion, we can define wealth as a complex object comprising various components collectively referred to as assets. These assets can be tangible or intangible, liquid or illiquid, and their value can fluctuate based on a combination of cultural, economic, and legal factors. Wealth serves to provide security in an uncertain world, to generate income, and ultimately to act as a resource for sustaining a particular standard of living, which depends on individuals' spending habits. *This definition refines the traditional understanding of wealth through philosophical inquiry.*

In the following article, we will look at wealth from a metaphysical perspective. This will require us to delve even deeper into the realm of philosophy, but it will ultimately enable us to extract a richer understanding of what wealth truly is. **EG**