

## **Risk-hedging**

Risk-hedging from the age of the cave man to the dawn of the Renaissance

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In Homer's epic poems, *The Iliad* and *The Odyssey*, the heroes are fair game for the gods who are just a bunch of spoiled brats indulging in the fickle pleasures of capriciousness, shifting their loyalties to specific heroes as quickly and unpredictably as they change their own moods. In Greek mythology we encounter Moira, the goddess of fate, who plays three complementary roles: she spins the thread of life, attributes it to a human being and cuts it again; and she does so in a completely unpredictable manner. In the great Greek tragedies by Sophocles, Aeschylus and Euripides, human fate is at the mercy of those supernatural forces and, therefore, always unpredictable.

The ancient Greeks knew about the continuous interaction between *kósmos* (structure, order) and *cháos* (lack of structure, lack of order). As they saw it, *kósmos* governed the domain of the heavenly bodies, whereas chaos governed the behavior of the Olympians and of human beings. The behavior of planets was therefore predictable; but the behavior of the gods and of human beings was unpredictable.

The Greek paradigm of the description and explanation of the world was eventually replaced by the conceptual framework of monotheism developed by the Judeo-Christian religions. In this new worldview, God was the supreme order governing whatever happened in the universe. But how could one explain the existence of unnecessary chaos, destruction, suffering and unpredictability? For obvious reasons religion did not allow the cause of these undesirable phenomena to be attributed to the Lord. A chaotic counterpart that worked continuously at disrupting the Lord's supreme order had to be thought of. Thus the devil in hell, a former inhabitant of heaven and the source of all evil came into being. He was not a new invention at all, because he and his many assistants strongly resembled the Titans of Greek mythology whom Zeus had banished into an underworld called Tartarus.

The Lord and His counterpart, the devil, were the principles of causal explanation, and their reign lasted for over a thousand years, from antiquity, through the Middle Ages right up to the dawn of the Italian Renaissance.

Renaissance man discarded the dogmatic blinders of the Roman Catholic Church and opened wide the windows of his conceptual chambers, allowing the fresh breeze of autonomous thinking to blow away the stale air of the Dark Ages. In this process of catharsis and liberation from alienating forces, man soon developed a self-image of amazing pride, autonomy and self-reliance. He



suppressed the guiding biblical metaphor of the shepherd and his sheep that, for quite obvious reasons, had been so dear to the Pope and his prelates. He no longer considered himself to be a sheep or a helpless victim of the blind forces of fate; he wanted to become the maker of his own fate. He began to reject and to fight the monopoly of the Roman Catholic Church on transcendental communication because he felt free to address whomever he wished to address, and he did not need a go-between for that purpose. In the course of this process of progressive liberation Luther, Calvin and Zwingli tried to break completely the fetters of slavery by getting rid of the confessional. Making a decision and choosing a strategy, however, do not give rise to intended consequences only; they also have their unintended consequences. Thus with their abolition of the confessional, the Reformers accomplished something that was beyond their conscious intentions: they heavily influenced our western concepts and strategies of risk hedging.

The confessional had been (and still is in some quarters) a social institution of risk-hedging which served both sides: the confessing sinners and the priests who heard the confessions and absolved the sinners. The sinners could indulge in the tranquilizing belief that after every confession their immortal soul could start from scratch, because a confession was like a forceful jet of water that washed away all sins into the drain of oblivion. In other words, the risk of a sinner ending up in the eternal damnation of hell was hedged by going regularly to confession. The Church, however, also profited from the convenient institution, which gave it access to highly private information it could not have gleaned otherwise. This information concerned not only the deeds committed by Christian souls, but even their thoughts and fantasies. And confessors tormented by shame and guilt could tell stories not only about themselves but also about their fellow Christians.

No totalitarian regime obsessed with gathering a maximum of intelligence could have done better. The confessional was a smart invention, a high-performance tool for ecclesiastic risk hedging, profitable to both the sinners and the Church. But its benefits for both parties went even further. The priests could suggest to the repentant sinners panicking in the face of possible eternal damnation that a pious donation to the Church would further hedge their risks in case they should die between confessions. They could buy letters of indulgence and bequeath their worldly possessions to the Church. The Lord would enter such good deeds in his balance sheets, and on the day of the Last Judgment there would be no reason for doom; indeed the heavenly balance sheets would contain a record of the debts accumulated - alongside the assets piled up in the course of a pious Christian life. Thus the institution of confession was a clever gambling casino offering a profitable trade for all the participants, a non-zero sum game in which eventually all stake-holders - the faithful sinners, the Church and the Lord - would end up as winners.

But once the confessional was gone, these risk-hedging strategies were gone, too. Now man had to bear the burden of his responsibility for all decisions made, deeds done, and errors and sins



committed. Autonomy not only implied rights, it also implied duties. A maker of his own fate could no longer attribute the causes of - and therefore the responsibilities for - his actions to an extra-personal source. He was the only source of right and wrong decisions made and good or bad deeds accomplished, of victory and defeat, of fame and of shame.

In this historical context the freedom of thinking and acting, the invention of the printing press, the desire to explore and to experiment, and the need to forecast and control the future became the true motors for the *Renascimento*, the rebirth of Renaissance man.

On the basis of this new ideology man began to explore all the possible domains of existence. In 1492 Columbus "discovered" America. He belonged, together with Vasco de Gama and Ferdinand Magellan, to a group of daring seafarers looking for new trade routes and access to new natural resources and utilities. In their pursuit of knowledge, wealth and fame, they mapped hitherto uncharted territories. They literally expanded the western world, opened the dark chambers of the Middle Ages and flooded them with the light of new discoveries, as did the scientists and artists of the Renaissance. Galileo Galilei built a telescope that enabled him to discover the phases of Venus, the craters on the surface of the moon and the satellites of Jupiter; Leonardo da Vinci dissected corpses to draw the structures of inner anatomy; Andreas Vesalius, physician of Charles V and Philip II, demanded the official right to perform autopsies, thus founding modern anatomy. Renaissance artists invented perspective drawing and offered with it a new way of looking at the world and of representing it in their sketches, paintings and sculptures.

International trade and commerce flourished. If until then wealth had been a result of heritage and constitutional or criminal robbery, at present the self-made man began to replace the descendants of the traditional establishment. Due to changing circumstances suddenly everybody had the chance to acquire wealth, provided he was willing to take the risks connected with the endeavor. But the new trade routes, unfortunately, did not offer only new opportunities for the ascent from rags to riches. Once again the "wildness" lay in waiting: pirates, ruthless local rulers, wars, mutiny, storms at high sea and other natural and man-made dangers and disasters threatened the daring adventurers and their cargo.

When Alexander the Great, one of the outstanding charismatic leaders and most daring explorers of all times, undertook his military campaign that led him and his army from Macedonia to Egypt, Asia Minor, Persia, Afghanistan and India, he regularly offered sacrifices to the gods and asked the holy oracles - for instance, the oracle god Ammon in the Siwah oasis in the Libyan desert and the oracle god Marduk in Babylon (Wilcken 1967) - advice about the course of future action. But some 1,500 years later, man's fate was no longer dependent upon stellar constellations at the moment of his birth, or the moods of the Olympian gods, or the Lord, or the inexorable laws of nature, or a more



anonymous source of causation. According to the new view, man's fate depended mainly upon his own decisions and actions, and in this new context it was a sine qua non to find new methods of risk hedging. Man had to try to lift the seams of the future to find out what this future had in store for him. He had to know when and how to grasp opportunities offered and when and how to avoid the daggers of danger.

