



Transforming Finance: Recognizing the Finance System as a Global Commons

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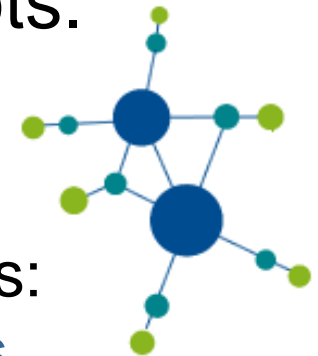




IFF is a group of Kindred Spirits!

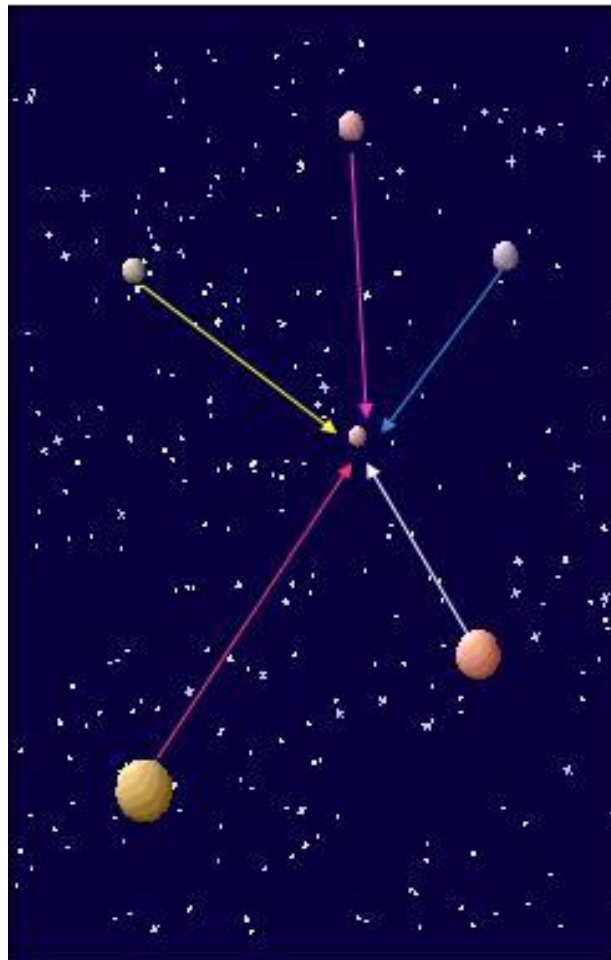
- **Don Michael**'s brilliance and foresight still inspires us all.
- We are indeed in a **Conceptual Emergency** – still in our silos, trying to connect the dots.

So, I relate to IFF's many wonderful members: **David Peat**, **David Lorimer**, **Napier Collyns** and thank **Graham Leicester** and **Andrew Lyon** for hosting this distinguished gathering.



A Post-Cartesian Scientific Worldview

PRINCIPLES



Interconnectedness at every system level

Redistribution

**recycling of all elements
and structures**

Heterarchy

networks and webs

Complimentarity

**replaces either/or with
both/and, win-win logics**

Uncertainty

**from static, equilibrium,
and mechanistic models to
self-organizing, self
replicating living systems**

Change

evolutionary view



The Need to Transform Finance

- More urgent than when I first began writing about this in the 1960s
- Citizens for Clean Air, New York, 1964
- Senator Robert Kennedy
- Nicholas Georgescu-Roegen, 1971, The Entropy Law and the Economic Process
- US Office of Technology Assessment, 1974-1980
- E.F. Schumacher in the USA, 1970s
- Politics of the Solar Age, 1981, forward by Fritjof Capra

TWO MAIN WAYS OF TRANSACTING

Money Based

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\$

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Money Economy

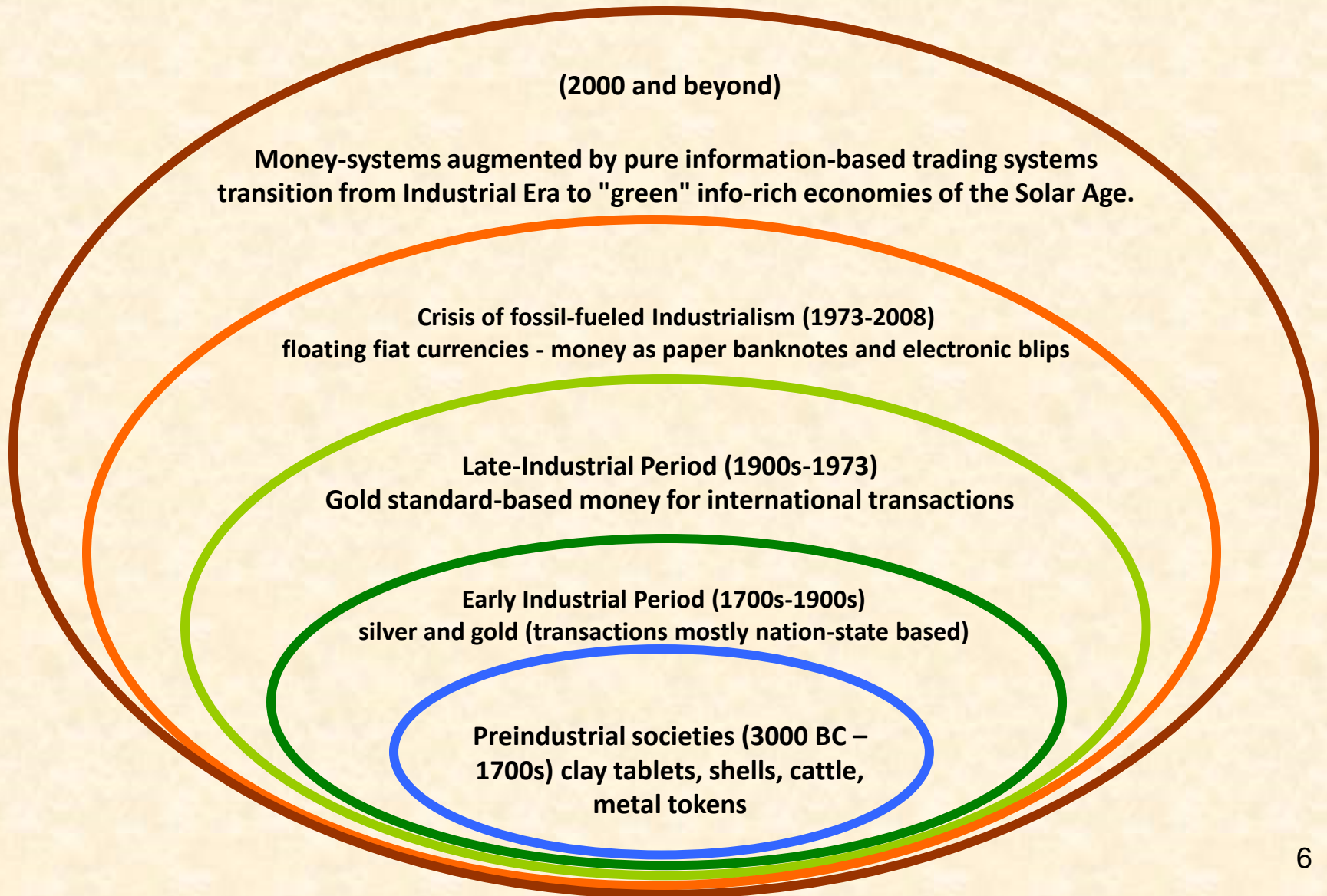
**Information-
Based**

Love Economy

- Cooperation
- Barter-Mutual Aid

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EVOLUTION OF HUMAN UNDERSTANDING OF THE ROLE OF MONEY AND OTHER MEDIUMS OF EXCHANGE





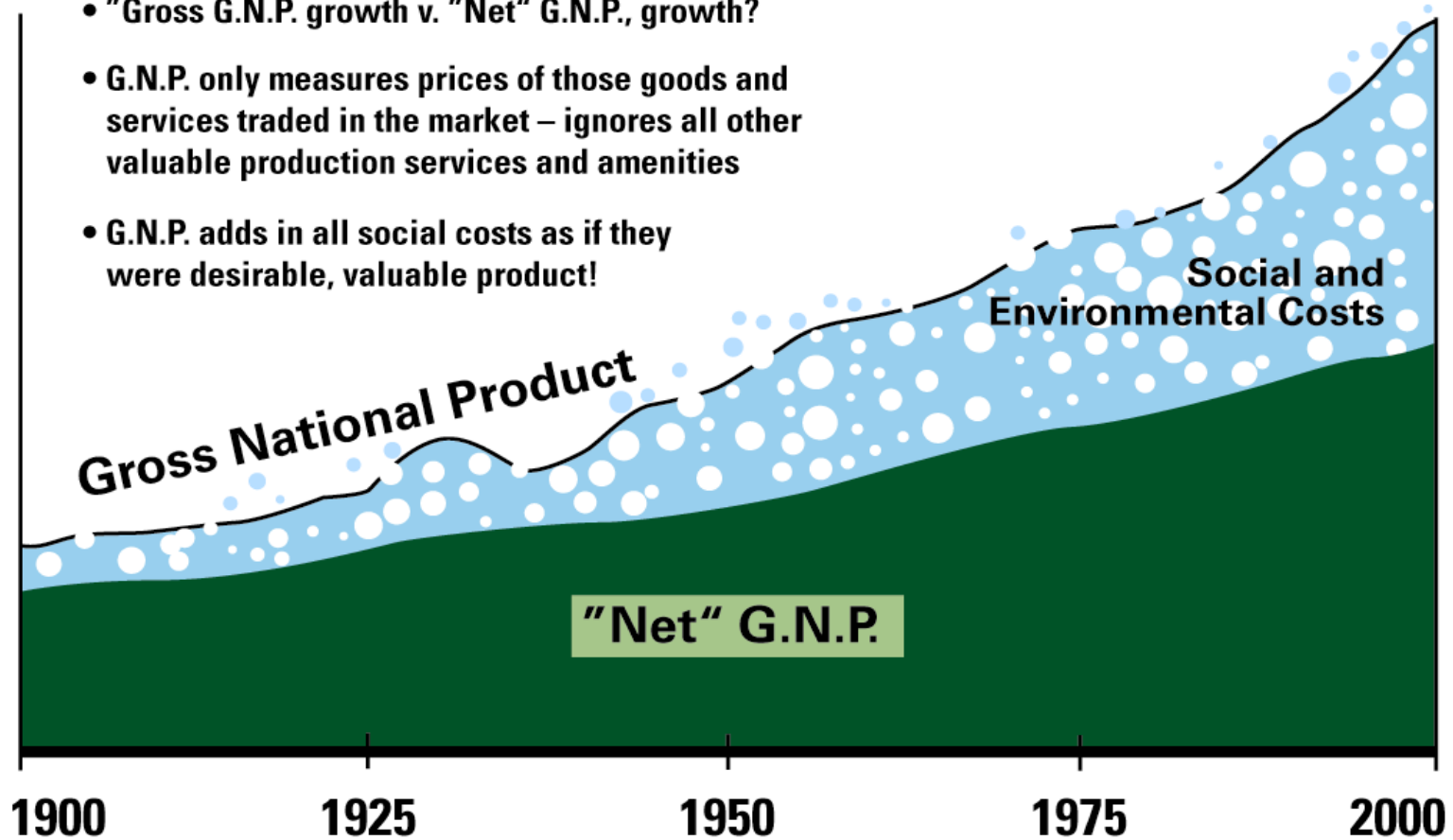
Globalization, Privatization 1980s

- Deregulation, Reagan-Thatcher
- "The Washington Consensus" – US Treasury-World Bank-IMF became the model of "development"
- GDP measure of "progress"
- All values subsumed under economics and money



Gross National Product Problems

- "Gross G.N.P. growth v. "Net" G.N.P., growth?"
- G.N.P. only measures prices of those goods and services traded in the market – ignores all other valuable production services and amenities
- G.N.P. adds in all social costs as if they were desirable, valuable product!



©1978 Hazel Henderson • Source: Creating Alternative Futures, 1978, 1996, Kumarian Press, West Hartford, CT, USA



The Global Casino of the 1990s

- 24-7 trading of stocks, bonds, currencies
- based on taxpayer-funded
 - satellites
 - communications infrastructure,
 - airports,
 - transport,
 - telecoms,
 - global agreements,
 - IATA-GPU

Later: the Internet



Era of Financialization 2000s

- Financial "services" sectors become bubbles
- Quants design ever-more esoteric "financial innovations":

Securitization

MBS

CDOs

CDO²s

CDS

SIVs

leading to pyramiding of assets (similar to the 1920s!)

- Inevitable financial crisis

Latin America 1980 Asia 1997-8

LTCM, Russia 1998

Dot.com 2000

Argentina 2002

Housing 2007-

Banking 2008-



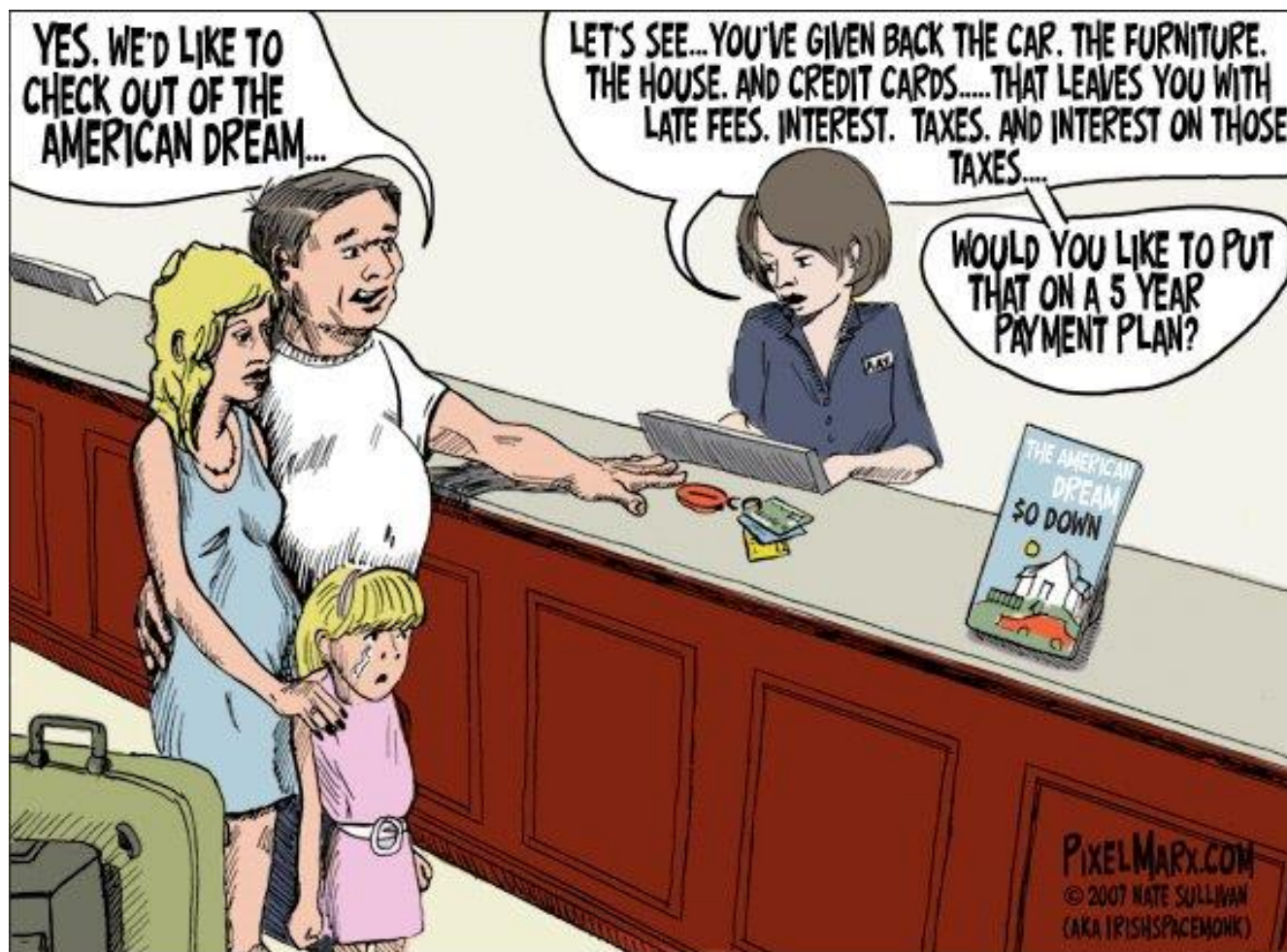
Bailouts of 2008-9

- Northern Rock, other British and European Banks
- US TARP \$700 billion
- Feds discount window \$3.1 trillion, AIG, toxic assets
- Fed could have purchased city and state bonds – not just corporate and banks (Ellen Brown)
- SIGTARP's Neal Barofsky . . . \$23 trillion
- 2009 US Dodd-Frank Law enabled even bigger banks
- 6 biggest TBTF now control 60% of US Finance (S. Johnson, 2009)
- Private debt shifted to governments/taxpayers
- So, 2009 was a great year for Wall Street



Governments v. Finance 2010

- PIIGS
- Politicians shift deficits to citizens
- Eurozone – EC bails out banks
- Austerity, Cuts
- Citizens rage – unfair!
- Beyond GDP → Real Wealth





The Transforming Finance Initiative

- meeting convened by Ethical Markets, the Capital Institute, University of Notre Dame, and Networking Action
- As market participants and beneficiaries, the group took responsibility to promote fundamental restructuring and reform.
- We base our recognition of finance as part of the Global Commons on the Bretton Woods rules in 1945.





Global Casino: Flywheel of Destruction

Fundamental flaws:

- rooted in obsolete economics, financial models
 - EMH MPT CAPMs
 - Black-Scholes Options Pricing Models
 - Simplistic risk management
- Future financial crises inevitable
- Financialization: markets become casinos!
- Currency trading \$4 trillion daily
- High-frequency trading – gambling addiction!
- Improper use of public infrastructure
- Disordering every local social system and ecosystem on the planet



So Far: **Transforming Finance** statement has been signed by 80 world-class experts.

- What is the purpose of finance?
- What human values and principles?
- What are the limits of markets and money?
- How can finance serve
 - equitable ecologically sustainable governance of the global commons,
 - acknowledge traditional non-market based sectors and societies
 - reduce inequality, and
 - respect human rights?





Markets operate on **TRUST**

Finance should incorporate commons principles:

- Access for all participants without sudden, cyclical capital market disruptions,
- Acknowledgment of the intrinsic value and assignment of rights to the environment,
- Decision-making at the most local level possible (subsidiarity),
- A commitment to environmental sustainability and social justice globally
- Stakeholder co-governance.





Key operations of Global Finance

- Stabilizing the value of national currencies and establishing a reliable global currency regime.
- Channeling savings into productive and sustainable investments that build real wealth.
- Managing fail-safe, transparent payment and settlement systems.
- Appropriate, dependable, transparent tools for managing financial risks and assuring that issuers, insurers and counterparties are accountable.

AND

- Ethical principles
- Social mandate to serve real economies as intermediaries
- Financiers do not "provide" capital
- Banks as public utilities (L. Kotlikoff and J. Kay)
- Beyond GDP Indicators





Imperatives for a Sustainable Future

- Break-up of TBTF banks
- Bring money-creation under public control
- End fractional-reserve private banking
- Transparent, democratic Central Banks
- Enable city and local currencies
- Allow regional public banks, e.g. Bank of North Dakota
- Public Banking Institute





Downsizing Financial Sectors

- G-20 enact Financial Transaction Tax (<1%)
- Reduce leverage – cap inflated bonuses
- Separate retail deposit banks from risk-taking proprietary trading, hedge funds, private equity
- Ban naked short-selling and many derivatives
- Retrain Bankers and Portfolio Managers in ESG
- Reform Ratings Agencies
- Accountable Institutional Investors, e.g., Paul Woolley's 10 Principles for Pension Funds (agent–principle issues)



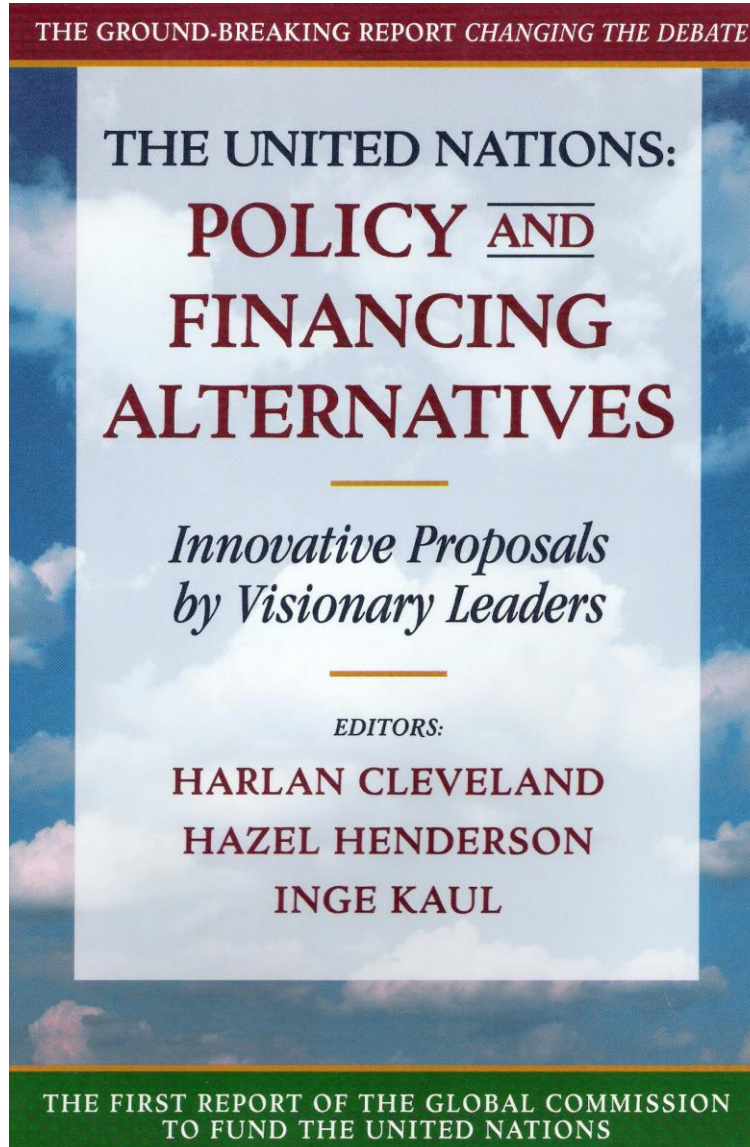


The Commons Approach Since Bretton Woods – 1990s

- Global Public Goods Theory (Dr. Inge Kaul)
- New Markets and New Commons (H. Henderson)
- Beyond the "Tragedy of the Commons" (Garrett Hardin, 1968)
- Elinor Ostrom: rules-based governance of commons widespread (Bank of Sweden Prize 2010)
- Defending the Global Commons: The Global Commission to Fund the UN 1995
 - tax all commercial uses of common resources
 - fines for over-exploitation, abuses: atmosphere, oceans, rivers, biodiversity, electromagnetic spectrum, Antarctica, space, finance, communications



Report: The UN Policy and Financing Alternatives (Elsevier, 1985, 1996)



Report of the Global Commission to Fund the United Nations

- fees for commercial uses of the global commons, e.g. financial transaction fees
- proposed the UN Security Insurance Agency (UNSI) for peace keeping
- presented at the UN Social Summit Copenhagen, 1995

Elsevier Science Ltd, 1995



Defending the Global Commons

DIFFERING VIEWS OF MARKETS & COMMONS

All such schematizations are, at best, approximations and often culturally arbitrary

ECONOMISTS	FUTURISTS/SYSTEMS
<p style="text-align: center;"><i>Markets</i></p> <p>Private Sector</p> <ul style="list-style-type: none"> • Individual decisions • Competition • “Invisible Hand” • Anti-trust 	<p style="text-align: center;"><i>Open Systems</i></p> <ul style="list-style-type: none"> • Divisible resources • Win-lose rules • (Adam Smith’s rules) • Public-civic-private collaboration
<p style="text-align: center;"><i>Commons</i></p> <p>Private Sector</p> <ul style="list-style-type: none"> • Property of all - Privatization • Monopoly under regulation • Consortia with governments • Cap and Trade 	<p style="text-align: center;"><i>Closed systems</i></p> <ul style="list-style-type: none"> • Indivisible resources • Win-win rules • Cooperation • Agreements • Green Transition

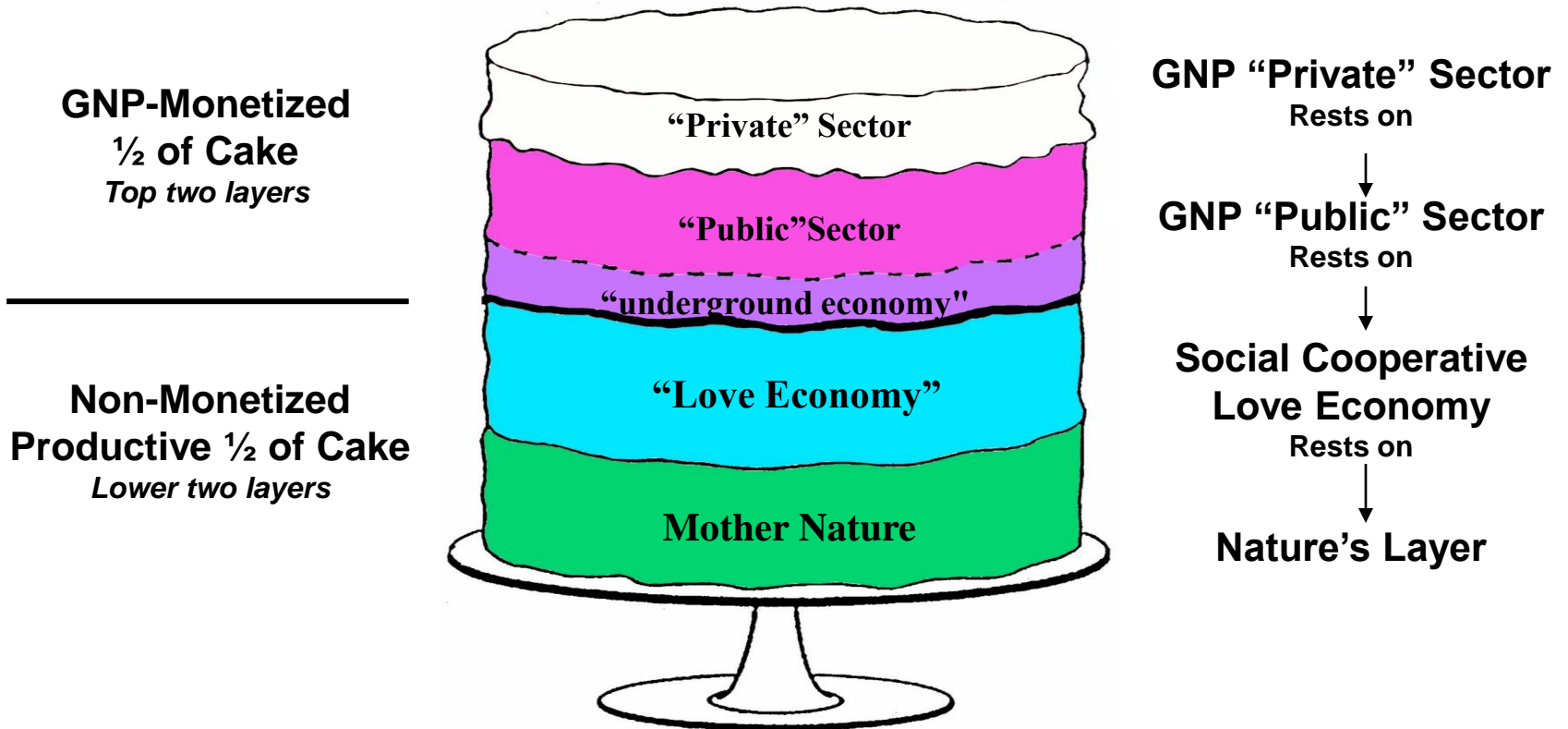


Rising Sectors Beyond Markets

- CSOs, NGOs, the Third Sector worldwide World Social Forum, since 2001 from 15, 000 → 130,000 groups in many cities
- Non-profit, voluntary service sector: John Hopkins Univ. study on 22 nations -- 19 million full-time paid workers at \$1.1 trillion
 - Netherlands -- 12.6% of paid employment is in non-profit sector
 - UK is 6.2%
- Social Networks
- The Open-Source, cooperative sectors
 - Benkler, Wealth of Networks (2007)
 - Tapscott, Wikinomics (2009) and Macrowikinomics (2010)
- The Love Economy: 50% of all productive work in all countries is unpaid, cooperative, caring, sharing (H. Henderson, 1982)



Total Productive System of an Industrial Society (Layer Cake With Icing)





The Newest Commons:

- Global media
- The Internet
- The Global Financial Systems
 - but being run by old win-lose and lose-lose rules
- From economics to systems theory
- "The Social Economy" (Roberto Savio, InterPress Service, January 2011)



Multiple Currencies

at Global, National, Provincial and Local Levels

(see my "The Politics of Money" at www.hazelhenderson.com)

- **US** state-level public banks: e.g. Bank of North Dakota
- American Monetary Reform Act, www.monetary.org
- Auditing the Federal Reserve
- **Brazil**: over 100 towns have local currencies
- Beyond scarcity-based Money (The Money Fix at www.ethicalmarkets.tv)
- New currency pegged to Kilowatt hours from solar-based sources (e.g., "A Win-Win Plan for Iceland, Britain and the Netherlands," H. Henderson, March 2010)



Explosion of Indicators!

- 1975 Canada's Conserver Society
- 1985 Jacksonville Quality of Life Indicators, USA
- 1989 Index of Sustainable Economic Welfare
- 1990 UN Human Development Index
- 1990s Community Indicators Network
- 1990s Genuine Progress Indicators
- 1995 EU Parliament - Taking Nature into Account
- 2000 Calvert-Henderson Quality of Life Indicators
- 2003 ICONS – Brasil-Watch
- 2006 Canadian Index of Wellbeing
- 2007 EU Parliament Beyond GDP Conference
- 2008 Sustainability Compendium, Sao Paulo, SP
- 2009 Global Peace Index
- 2011 Globescan-Ethical Markets Beyond GDP Survey



Success of SRI Investing and CSR Sustainability in Companies

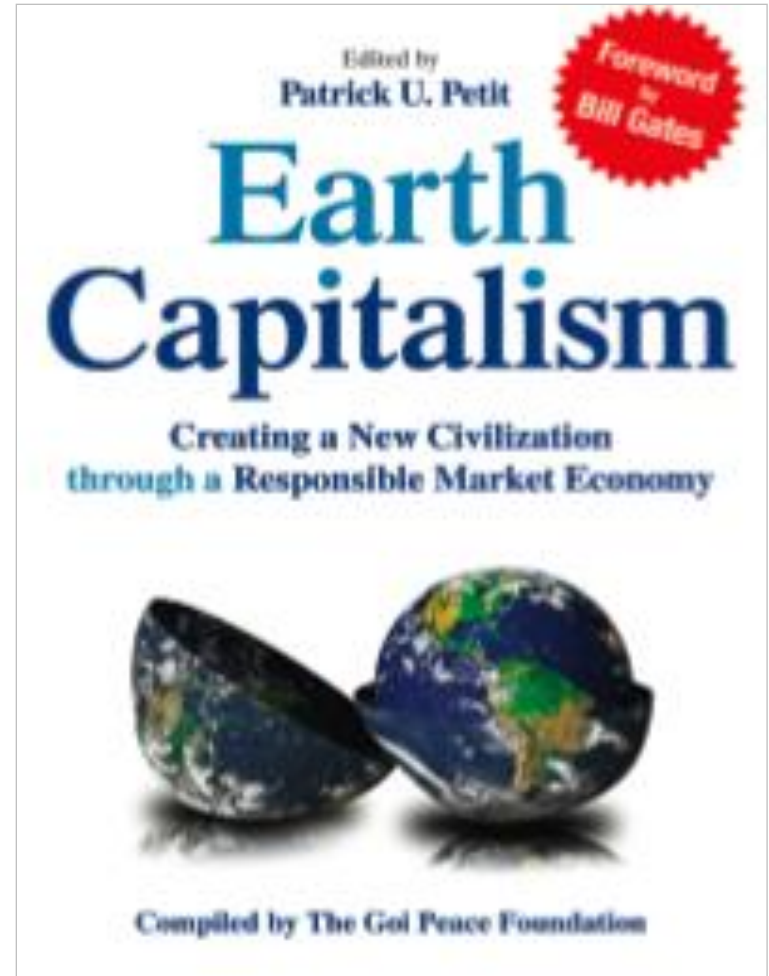
- Total assets under SRI management over **\$2 trillion** in the US alone
- 2000 UN Global Compact (5600 companies)
- Role of CALVERT
- UN Principles of Responsible Investment (**\$22 trillion**)
- Carbon Disclosure Project (**\$64 trillion**)
- CERES (**\$3 trillion**)
- New US "B-Corp" Charter





New Textbook on Sustainable Social Enterprises!

(including Ethical Markets Media!)





The End of Economics

- Rise of Systems Thinking
- Macro-economics failure
- Micro-economics still useful if all social costs are internalized
- Rise of responsible, ethical investing
- Accounting's evolution to ESG (e.g. GRI, ICAEW's "Qualitative Growth")
- Exposure of Bank of Sweden Prize (de-link from Nobels)
- From GDP to Systems Dashboards



CALVERT-HENDERSON

QUALITY OF LIFE INDICATORS



A NEW TOOL FOR ASSESSING NATIONAL TRENDS



Stage Set for Global Transition to Sustainability!

- Obsolete **ECONOMICS** revealed!
- Old business models relied on profits from "**EXTERNALITIES**"!
- Perverse subsidies (G-20)
- Finance perpetuated blindness to externalities – not "Black Swans"!
- From "**COSTS**" to "**AVOIDED COSTS**" and **SOCIAL BENEFITS**
- 2008 → Green Jobs, Green Growth, "Technological Leapfrog", Green New Deal, Global Marshall Plan



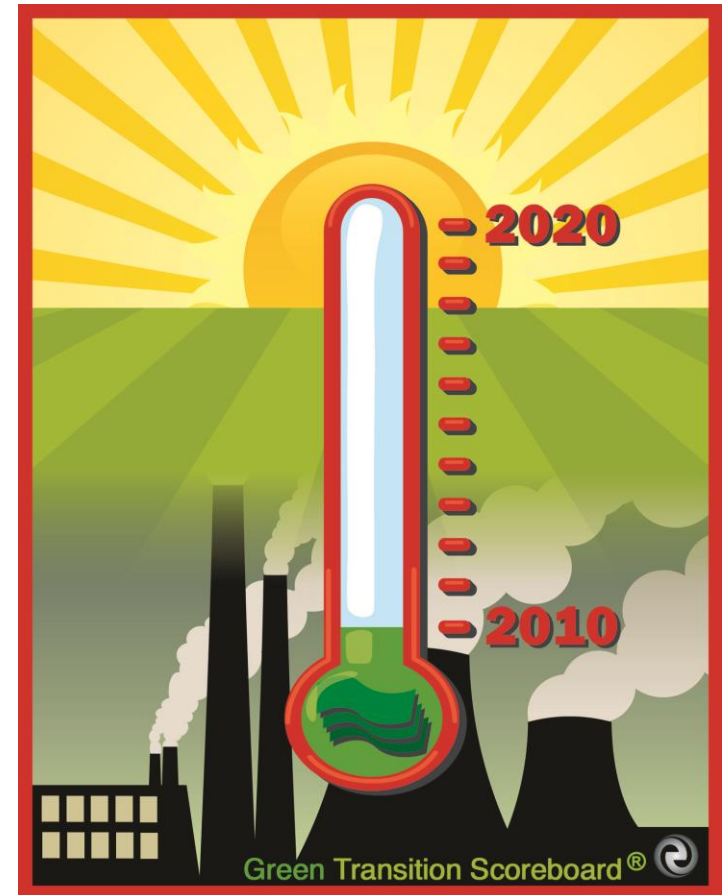
2009 Climate Prosperity Alliance

- Copenhagen WIN-WINS missed:
 - Global Floor Price for Carbon
 - Ramp-up of Investment in Green Transition
 - Removing subsidies
 - Climate Solutions 2 Computer model
 - \$10 trillion over 10 years
- Time is scarce – Not Money!



Green Transition Scoreboard®

\$1.64 trillion in private investments in growing a cleaner, greener economy worldwide



July 2010 findings from Ethical Markets (www.ethicalmarkets.com)



Thank You

Hazel Henderson
ETHICAL 
MARKETS



**Growing the
Green Economy**

WITH SIMRAN SETHI • FOREWORD BY HUNTER LOVINS

Based on the Acclaimed Public Television Series

Now the win-win approach for:

- * the economy
- * jobs
- * the environment
- * society
- * climate protection

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