

Transforming Finance: Recognising the Global Financial System as a Commons

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Wednesday 19 January 2011

Overview

In this lecture, Hazel Henderson outlined the implications of recognising global finance as a commons for restructuring our current financial markets which operate like global casinos. This restructuring is needed in order to restore the purpose of finance as serving the real economies of the world rather than simply profit or shareholder value. She suggested some principles to guide finance in the service of people and planet and outlined the limits of markets and money itself. She investigated how to defend the global commons i.e. atmosphere, oceans, biodiversity etc from inappropriate market penetration and protect human rights, especially those of indigenous peoples in non-market societies as well as their traditional cultures and lands.

Summary

In her opening remarks Hazel made three comments:

- She highlighted that the perspective she would develop in her lecture was premised upon “*a post Cartesian scientific world view*” one in which interconnection at every system level is acknowledged
- That the need for transformation in the global finance system is greater than ever as the problems which it contributes to are now critical
- That there are two main ways of transacting exchange. The first is the money economy in which goods and services are exchanged for money, characterised by competition. The second she called the love or gift economy in which goods and services are given freely or bartered and exchanged, characterised by co-operation

Money, Gross Domestic Product and the banking crises

In a brief history of money Hazel showed that it had begun its life in preindustrial societies (around 3000BC) as a means of exchange. These days it has extended to include pure information based trading systems which have no real connection to goods and services of any value.

She suggested that this more abstract form of money was significantly increased during the financial deregulations of the Reagan –Thatcher era. These deregulations of financials systems were also related to a

particular idea of development in which the only measure of progress or success is Gross Domestic Product (GDP). GDP is simply a measure of the volume of transactions in an economy and thus includes undesirable effects as well as good effects. For example the social and environmental costs of economic activity actually increases GDP.

These changes, deregulation of financial markets and the elevation of GDP together with the evolution of the internet, led to the development of casino like behaviour in the global financial markets as traders pursued profit and return with no need to take account of costs outside the trading system. Deregulation also made it possible for finance houses to develop 'services' which had less and less useful purpose or material. This activity laid the foundation of an inevitable financial crisis as it became increasingly apparent that the values created were ethereal and the loans made had little chance of being repaid. This led to the widespread bailouts of banks and financial houses in 2008-09. Hazel argued that this was a 'double whammy' since these bailouts were paid for by taxpayers who now face a period of austerity as a result.

Real Wealth beyond GDP, Transforming Finance

Hazel went on to describe the Transforming Finance Initiative (TFI). TFI takes its principles from the Bretton Woods agreement – part of the settlement of World War II in 1945. This emphasised stakeholder involvement, governmental control, access for all, value for citizens, subsidiary and social and environmental justice in financial systems. It highlights the idea that financial systems are for the common good rather than private good and part of the global commons, like air and water, to which all should contribute and from which all should benefit. Many international organisations were established in the post war period to steward and develop this dimension of finance and to ensure that its purpose and use reflected the aspirations set out for it at Bretton Woods by the international community.

The intention is to overcome the destructive tendencies of existing financial markets and replace them with financial arrangements which:

- Serve equitable sustainable governance of the global commons (air, water, environment etc) of which it is a part
- Acknowledge traditional/and non-market based societies, sectors and activities
- Reduce inequality
- Respect human rights

Finance should incorporate the principles of the global commons:

- Access and stability
- Intrinsic value of the environment is central
- Subsidiarity (decision making at the lowest possible level) and transparency
- Stakeholder governance

For this to be possible the banking sector needs to rediscover mutuality and end fractional reserve arrangements (where banks are allowed to lend many times the reserves they hold).

Beyond GDP

While these suggestions may appear lofty or impossible, there is in fact a great deal of empirical evidence to show that it is already happening. Many people, over the world, are engaging in activity which holds with the principles and actions outlined above. For example it is estimated by researchers at John Hopkins University that in the USA, non-governmental organisations (NGOs) employ 19 million people and turnover \$1.3trillion per annum. In the Netherlands 12% of paid employment is in the not for profit sector while in the UK, it is

6.2%. One could add to this the burgeoning co-operative exchanges on social networks and open source activity on the internet, itself an example of a global commons. A study undertaken by Hazel herself suggests that half of all productive work is undertaken in the love or gift economy – unpaid, co-operative caring and sharing. Add to this the development of many new local and regional currencies and one begins to see that the private sector produces only a small part of the half of productive activity which is monetised. Most is produced in the public sector. Of the half which is not exchanged for money, about a half is produced in the love economy and half by nature, upon which everything rests.

Since the last quarter of the 20th century there has been an explosion of indicator sets beyond GDP as people try to estimate the true value of such life enhancing activity. Examples include the Index of Socio Economic Welfare, UN Human Development Index, Canadian Index of Wellbeing, Genuine Progress Indicators and the Calvert Henderson Index. Hazel suggested that development and availability of these measures were having an impact on conventional economic activity. Some three or four examples which she quoted, suggest about \$90 trillion is already invested in economic activity which take carbon disclosure and socially responsible investment seriously as new forms of organisation and enterprise take root.

Such a perspective highlights the fact that it is more useful to take a systems rather than an economics approach to human activity. The former, the systems approach, starts from the premise that everything is interconnected and therefore actions in one part of the system will have desirable and undesirable affects elsewhere in the system and it therefore tries to reflect this in what is counted. In economics, GDP and money value are central, with other effects externalised. In this sense Hazel suggested that we are seeing the end of economics. Taken together, these changes highlight the rise of systems thinking, the failure of macro economics, the rise of responsible investing, thinking beyond GDP and a desire by an increasing number of people and organisations to think beyond the narrow confines of economics when thinking of what is valuable in life and what therefore ought to be pursued.

Hazel concluded by suggesting that the stage is now set for a *global transition to sustainability*.

The recent financial crisis and increasing environmental pressure has revealed that economics as a discipline is obsolete.

The rise of systems thinking has highlighted that there are no external effects of which we need not take account. All effects, desirable and undesirable are internal to the system and need to be taken into account when deciding which course of action to take.

Thinking has shifted from a narrow definition of costs to that of costs avoided and social benefits gained as part of the calculus.

There is a significant growth in forms of activity and exchange which respect the environment, justice and human rights. To make this transition in a world where time rather than money is short we will need \$10 trillion over 10 years. Hazel's own Green Transition scoreboard shows that \$1.64 trillion was invested in such activity in 2010. This suggests that such transition is not only possible, but is already happening and is on target and needs to continue and ramp up.

The views expressed in this paper are those of the speaker and do not necessarily reflect the views of the Glasgow Centre for Population Health.

Summary prepared by the Glasgow Centre for Population Health.