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Finance and the Common Good 2016-2017

Reconnecting Finance with Society

Reader

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Title: Review of ‘Other’s People’s Money: Masters of the Universe or Servants of the People’, by John Kay
Author: Benjamin Heller
From: New York Times
Date: October 6, 2015

In an 1814 letter, Thomas Jefferson complained that the financial sector of his day was populated by “adventurers . . . who burthen all the interchanges of property with their swindling profits, profits which are the price of no useful industry, of theirs.” Almost exactly two centuries later, John Kay echoes the sentiment, noting that as “exchanging bits of paper cannot make profits for everyone,” it is very likely that much of finance’s profit “represents not the creation of new wealth but the sector’s appropriation of wealth created elsewhere in the economy.”

The charge is an old one that has taken on new relevance in the wake of the 2008 crisis. Yet Kay is no angry Jeffersonian agrarian, but rather an academic economist with a weekly Financial Times column and a onetime financial consultant. He is more sanguine than the typical -finance basher in that he acknowledges the sector’s critical roles: as a payment system, a means of channeling savings to productive investments, an instrument to help manage personal finances across the life cycle and generations, and a marketplace for transferring and managing risk.

Nonetheless, Kay writes, a more recent process of “financialization” has created a hypertrophied sector, its activities ever more abstract and divorced from the real economy, successful mainly at multiplying the remuneration of its members. “The tip of the tongue that laps up the cream of the commerce of a continent” was how Oliver Wendell Holmes Sr. described the New York money center of his day; Kay might rather characterize it as a gobbling maw.

Finance, Kay argues, has strayed dangerously from its core functions. And the functions themselves have been jumbled in dangerous ways (for example, with -deposit-taking becoming the funding source for uncertain, long-term risk--taking). Within each function, activities have moved from the primary to the (literally and figuratively) derivative — less investing, more trading, fewer assets and more “asset-backed securities.” Meanwhile, long-term relationships have been reduced to short-term transactions. The result: instability and crisis.

While the gravamen of its complaint is old, “Other People’s Money” is not merely another broadside content to denounce finance’s dysfunction, but rather a masterly attempt to locate its various origins and connect them with analytical and theoretical rigor. Kay provides by way of context a panoptic overview of the history, evolution and structure of the financial system in the United States and Britain, one that is impressive in its ability to weave together a comprehensive range of material, from the mechanics of banking to the Gaussian copula, in elegant, jargon-free prose. He confidently employs many perspectives: economic, historical, legal and psychological. Call this technique a Lombard Street for the 21st century.

The last third of the book insightfully addresses reform, which, refreshingly, Kay stresses is not the same as regulation. Some of finance’s most abstruse and pernicious activity arises from regulatory arbitrage — restructuring transactions so that they move from a less favorable to a more favorable regulatory rubric. Moreover, financial regulation suffers from a faster-spinning revolving door compared with other industries, with the regulators themselves either coming from or looking forward to landing in the industry they are supposed to oversee. Kay writes like an anthropologist: The roots of finance's dysfunction, he says, are cultural. The ethos of an old-fashioned partnership of traders risking their own capital endured even as a move toward public shareholding transferred "both these risks and these rewards from the partners . . . to the shareholders. In reality, it had little effect on the financial expectations of those who worked in the firms." Reform has to mean changing the industry culture: inculcating an ethic of stewardship and faithful agency (living the rhetoric of "putting the client first") and changing industry structure where culture clash is insuperable.

It's a pity policy makers didn't have this book in 2007. In 2015, it can read like an indictment of a convict already sentenced. Post-crisis, banks are more heavily capitalized, trading less and earning lower return on equity. "Large financial conglomerates were run for the primary benefit of the people who manage them — and, in the main they still are," Kay says. But surely to a decreasing degree: At Goldman Sachs, the amount of total revenue that is set aside for employee compensation has gone from more than 50 percent before the crisis to about 37 percent in 2014. Still, this can feel like a change born of chastening rather than epiphany. Kay makes a strong case that change must be embraced rather than accepted grudgingly if it is to endure.

Title: Te veel geld
Author: Dirk Bezemer
From: De Groene Amsterdammer
Date: October 12, 2016

Te veel geld kun je niet hebben. Of toch wel? Gisteren werd het WRR-rapport Samenleving en financiële sector in evenwicht aan minister Dijsselbloem overhandigd.

Ik schreef mee aan een achtergrondstudie en ben dus misschien belanghebbende, maar ook zonder dat is de boodschap me uit het hart gegrepen. De alomtegenwoordigheid van de financiële sector is een probleem, volgens de opstellers. Overal zit het geld – of preciezer: overal zitten financieel gestuurde beslissingen. En daar hebben we er inderdaad misschien wel te veel van. Het moeilijke is dat we die 'financialisering' graag zien als oplossing en niet als probleem.

In een gefinancialiseerde omgeving overheerst het financiële motief andere motieven. Voorbeelden te over. Een woningcorporatie is in het leven geroepen om goed wonen breed toegankelijk te maken, maar de bestuurders zijn vooral bezig met investeren in derivaten. De keuze van een studie zou moeten gaan over de ontwikkeling van talenten, maar wordt bepaald door het verwachte inkomen erna, zodat de studieschuld afbetaald kan worden. De aankoop van een huis zou over goed wonen moeten gaan, maar wordt bepaald door hoeveel er geleend kan worden. Een bedrijf bestaat om zinvol werk te organiseren en om te produceren, maar het management is vooral bezig met de aandelenkoersen. Een fusie zou synergie tussen bedrijven moeten creëren, maar wordt gestuurd door de leencapaciteit van het nieuwe bedrijf en de beloning voor de managers en de begeleidende zakenbankier.

De WRR stelt dan ook: 'Het financieel systeem is eerder leidend dan volgend of faciliterend geworden.' Wat betekent dat voor het dagelijks leven? Er is niet alleen een financieel systeem als stelsel van banken, maar ook als stelsel van gedragsnormen. Wat gebeurt er als dát systeem leidend wordt? De belangrijkste norm is dan financieel eigenbelang. We kunnen ons moeilijk meer indenken dat Gordon Gekko's kreet 'Greed is good' in 1987 zo'n ophef veroorzaakte. Ze is een open deur geworden. Geldzucht is onder de noemer 'financiële prikkels' deugdzaam geworden.

Financiële prikkels zouden misschien geen probleem zijn als ze het gewenste resultaat gaven zonder bijwerkingen, als een goed werkend medicijn. Zo gaat het vaak niet. Een beroemd experiment is dat van de crèche in Haifa, waarover Uri Gneezy en Aldo Rustichini in 2000 een artikel schreven onder de veelzeggende titel A Fine Is a Price. De crècheleiding wilde ouders ertoe brengen hun kind op tijd op te halen, en stelde een boete voor telaatkomers in. Het tegendeel gebeurde: meer ouders gingen hun kind te laat ophalen. De onderzoekers verklaren dat uit het wegvallen van een zachte norm. Tot dan was er een onuitgesproken consensus dat je je kind op tijd hoorde op te halen; een morele plicht, zo je wilt. De boete werd opgevat als signaal dat laatkomen in orde was, als er maar voor betaald werd. De harde regel van de financiële prikkel had de zachte norm verdrongen. Saillant detail: het was onomkeerbaar. Toen de boete opgeheven werd, bleven meer ouders dan tevoren hun kind te laat ophalen. De zachte morele norm was weg en bleef weg. En een boete is ook maar gewoon een prijs.

Zachte normen en intrinsieke motivatie zijn het bindmiddel van de maatschappij. Financialisering ondermijnt dat middel en dat is het probleem. Telkens weer wordt de zachte norm van intrinsieke motivatie weggedrukt door een harde financiële norm. Dat leidt tot gedragsproblemen. Geld maakt het mogelijk appels met peren te vergelijken, en dat is precies wat het opleggen van financiële normen in de hand werkt. Als een ziekenhuis minder rendement maakt dan een autodealer moet er wel iets mis zijn in het ziekenhuis. Financiële en andere kwantitatieve normen en targets leiden ook tot futiel gedrag – verpleegkundigen die stappen tellen, wetenschappers die citaties turven, scholen die boven aan lijstjes moeten staan. Alles bij elkaar een zeer hoge prijs voor de veronderstelde voordelen.

We beginnen dat te snappen. De vraag is nu: hoe kom je er vanaf? Want financiële prikkels kun je morgen invoeren, maar zachte normen niet. Vertrouwen krijgen en autonomie genieten zijn de voorwaarden voor intrinsieke motivatie. Die gedeelde motivatie wordt dan een zachte norm. Het begint dus bij vertrouwen. Maar decennia van neoliberalisme en de reactie van de Fortuyn/Wilders/GeenStijl-revolte hebben juist breed gedragen wantrouwen gekweekt. Hoe zetten we de-financialisering van gedragsnormen in werking anno 2016? Daar zou ik wel eens een rapport over willen lezen.

Title: The Financial World's Rotten Culture is Still a Threat – To All of Us
Author: Rana Foroohar
From: Time Magazine
Date: October 13, 2016

Sometimes it takes a group of economists to confirm reality. Last year, a team of German academics released a study on the effects of major financial crises on politics, examining 800 elections over 140 years in 20 advanced economies. They found that after such crises, right-wing populist parties and politicians typically increase their vote share by about 30%. [..] If that sounds familiar, it's because we are living through a season of the very same: persistent economic malaise since the 2008 crisis–punctuated by scandal after scandal–has laid bare the ways in which elites collude to create a system that mostly benefits elites.

Since 2010, there have been major scandals at banks on nearly every continent for every reason: malfeasance, incompetence, complacency. Wells Fargo CEO John Stumpf resigned on Oct. 12 after revelations that his bank faked 2 million accounts in order to charge customers more in fees. Meanwhile, the Panama Papers leak earlier this year confirmed what many already assumed: that world leaders, celebrities and billionaires are adept at shielding their wealth from fair taxation. In the U.S., Republican presidential candidate Donald Trump has even tried to make a virtue of his tax avoidance. No wonder surveys show that the trust gap between the 1% and the 99% has never been greater.

In all of these cases, elites enabled by a fundamentally flawed global finance culture fly over the nation-state system. That voters in countries around the world want to punish leaders at the polls for all of this isn't surprising. But the effects on civil society are more corrosive than one election return. If nothing changes, the building blocks of developed countries are at risk.
Take the trouble at Deutsche Bank, which recently saw its share price plunge after the threat of a $14 billion fine for dicey derivatives trades. The case a reminder of how Europe managed its debt crisis in the interest of banks, rather than citizens. German banks were encouraged by the government, which is entangled with the financial system in a way that makes the Wall Street–Washington conniving look puritanical by comparison, to lend to weak governments and companies all over Europe before 2008. As in the U.S. when things went bad, banks got bailed out and taxpayers took the hit. "Sick banks, some still owned by governments, are all over Europe," says Stanford professor Anat Admati, co-author of The Bankers' New Clothes: What's Wrong With Banking and What to Do About It. "They refuse to let them die but rather do backdoor bailouts [claiming they are in the interest of preserving E.U. unity, rather than bank solvency] that perpetuate the situation."

Cases like this foster the message that institutions and rich individuals can float above the system–and that has serious ramifications. Italy, for example, has the largest "unofficial economy" (read: level of tax evasion) in Europe. Studies show that the black market in Italy makes up around 27% of the nation's total economy. Greece, Spain and Portugal aren't far behind. Citizens of countries like these tend to lose faith in the system and stop doing their civic duty, like paying taxes, filing for business permits, obeying the rule of law in general. This only widens the gap between haves and have-nots.

In this sense, Trump may be a canary in the coal mine for the U.S. This election cycle has brought the public-approval rating of government to new lows. The GOP nominee has gone from obscuring how little he pays in tax to arguing that it qualifies him to fix the system. (When you look at the way in which Trump avoided paying taxes, you see a business model similar to Deutsche's: loads of tax-code-incentivized debt, which can be written off in ways that favor the investor while leaving others on the hook.) If his argument works, it is likely to make things worse, not better.

People will never love paying taxes. But when they stop trusting the system altogether, the foundations of a country begin to crumble.

Title: The Truth about Banks
Authors: Michael Kumhof & Zoltan Jakab
From: IMF, Finance and Development (Vol. 53, No. 1)
Date: March 2016

Banks create new money when they lend, which can trigger and amplify financial cycles

Problems in the banking sector played a critical role in triggering and prolonging the two greatest economic crises of the past 100 years: the Great Depression of 1929 and the Great Recession of 2008. In each case, insufficient regulation of the banking system was held to have contributed to the crisis. Economists therefore faced the challenge of providing policy prescriptions that could prevent a repeat of these traumatic experiences.

The response of macroeconomists—those who study the workings of national economies—in the 1930s was strikingly different from attitudes today. Then, there were two leading contenders for radical banking reform in the United States: the proposals that would eventually become the Glass-Steagall Act—which separated commercial and investment banks, created the deposit insurance program, and allowed greater branching by national banks—and proposals for 100 percent reserve banking, under which each dollar deposited by a bank customer must be backed by a dollar of cash in bank vaults or of bank reserves in the central bank.

Most leading U.S. macroeconomists at the time supported 100 percent reserve banking. This includes Irving Fisher of Yale and the founders of the so-called Chicago School of Economics. One of the main reasons they supported 100 percent reserve banking was that macroeconomists had, just before the Great Depression, come around to accepting some fundamental truths about the nature of banking that had previously eluded the profession, specifically the fact that banks fund new loans by creating new deposit money (Schumpeter, 1954). In other words, whenever a new loan is made to a customer, the loan is disbursed by creating a new deposit of the same amount as the loan, and in the name of the same customer. This was a critical vulnerability of financial systems, it was thought, for two reasons.

First, if banks are free to create new money when they make loans, this can—if banks misjudge the ability of their borrowers to repay—magnify the ability of banks to create financial boom-bust cycles. And second, it permanently ties the creation of money to debt creation, which can become problematic because excessive debt levels can trigger financial crises, a fact that has since been corroborated using modern statistical techniques (Schularick and Taylor, 2012).

The proposals for 100 percent reserve banking were therefore aimed at taking away the ability of banks to fund loans through money creation, while allowing separate depository and credit institutions to continue to fulfill all other traditional roles of banks. Depository institutions would compete to give customers access to an electronic payment system restricted to transactions in central-bank-issued currency (some of which could bear interest); credit institutions would compete to attract such currency and lend it out once they had accumulated enough.-

In Benes and Kumhof (2012) we found support for the claimed advantages of the 100 percent reserve proposal, using modern quantitative tools. To be clear, this article does not advocate 100 percent reserve banking; we mention its history here only as critical to the debate over the nature of banks.

In the 1930s the less radical Glass-Steagall reforms won the day, and eventually the U.S. financial system stabilized. But a by-product of this victory was that critical pre-war lessons about the nature of banking had, by the 1960s, been largely forgotten. In fact, around that time banks began to completely disappear from most macroeconomic models of how the economy works.

Unprepared for the Great Recession

This helps explain why, when faced with the Great Recession in 2008, macroeconomics was initially unprepared to contribute much to the analysis of the interaction of banks with the macro economy. Today there is a sizable body of research on this topic, but the literature still has many difficulties.

We find that many of these difficulties reflect the failure to remember the lessons of the 1930s (Jakab and Kumhof, 2015). Specifically, virtually all recent mainstream neoclassical economic research is based on the highly misleading "intermediation of loanable funds" description of banking, which dates to the 1950s and 1960s and back to the 19th century. We argue instead for the "financing through money creation" description, which is consistent with the 1930s view of economists associated with the Chicago School. These two views have radically different implications for a country's macroeconomic response to financial and other shocks. This in turn has obvious relevance for key policy choices today.

In modern neoclassical intermediation of loanable funds theories, banks are seen as intermediating real savings. Lending, in this narrative, starts with banks collecting deposits of previously saved real resources (perishable consumer goods, consumer durables, machines and equipment, etc.) from savers and ends with the lending of those same real resources to borrowers. But such institutions simply do not exist in the real world. There are no loanable funds of real resources that bankers can collect and then lend out. Banks do of course collect checks or similar financial instruments, but because such instruments—to have any value—must be drawn on funds from elsewhere in the financial system, they cannot be deposits of new funds from outside the financial system. New funds are produced only with new bank loans (or when banks purchase additional financial or real assets), through book entries made by keystrokes on the banker's keyboard at the time of disbursement. This means that the funds do not exist before the loan and that they are in the form of electronic entries—or, historically, paper ledger entries—rather than real resources.

This process, financing, is of course the key activity of banks. The detailed steps are as follows. Assume that a banker has approved a loan to a borrower. Disbursement consists of a bank entry of a new loan, in the name of the borrower, as an asset on its books and a simultaneous new and equal deposit, also in the name of the borrower, as a liability. This is a pure bookkeeping transaction that acquires its economic significance through the fact that bank deposits are the generally accepted medium of exchange of any modern economy, its money. Clearly such transactions—which one of us has personally witnessed many times as a corporate banker—involve no intermediation whatsoever. Werner (2014), an economist with a banking background, provides a much more detailed description of the steps involved in a real-world loan disbursement.We use the term "bank deposit" very broadly here to include all nonequity bank liabilities—that is, everything from checking accounts to long-term debt securities—because these liabilities can all be considered forms of money, albeit with highly varying degrees of liquidity. While the initial deposit is always created as a checking account, the ultimate holders of the new bank liability will as a rule demand a positive interest rate, with the level depending on how much they value liquidity over financial returns.

Two misconceptions could arise in this context. First, the newly created deposit does not "go away" as soon as the borrower uses it to purchase a good or an asset. It may leave the borrower's bank if the seller of the good or asset banks elsewhere, but it never leaves the banking system as a whole unless the underlying loan is repaid. This highlights the great importance of thinking about banks as part of an interconnected financial system, rather than thinking about one bank in isolation. Second, there is no reason to assume that such a loan will be repaid immediately. To the contrary, a loan is extended precisely because the funds are to be used to support additional economic activity, which in turn generates additional demand for liquidity and thus for bank deposits. If the funds are used to support relatively unproductive economic activity, it will give rise to relatively more goods or asset price inflation and less additional output. But this type of distinction is precisely what our new conceptual framework allows us to quantify.

Financing through money creation

This "financing through money creation" function of banks has been repeatedly described in publications of the world's leading central banks—see McLeay, Radia, and Thomas (2014a, 2014b) for excellent summaries. What has been much more challenging, however, is the incorporation of these insights into macroeconomic models. Our research therefore builds examples of economic models with "financing through money creation" banks and then contrasts the models' quantitative predictions with those of otherwise identical "intermediation of loanable funds" models.-

We should add here that the financing through money creation view is well known in the post-Keynesian economic literature, which however differs from our approach in two ways. First, it does not feature the optimizing households and firms of modern neoclassical theory, which have become de rigueur in mainstream economics, including at most policy institutions. Second, it tends to model credit and money as fully demand determined, with banks playing a very passive role. The added value of our work is the assumption of a more realistic world in which credit risks limit banks' credit supply, and liquidity preferences limit nonbanks' demand for money.

In simulations that compare how these models behave, we assume that, in a single quarter, the likelihood of borrowers missing payments increases very significantly. Under the realistic assumption that banks had to set their lending interest rates before this shock, and are committed to these rates for some time under existing loan contracts, banks suffer significant loan losses. They respond by writing new loan contracts that take into account the increased risk and the erosion of their capital buffers. This forces them to make fewer new loans and charge higher interest on the ones they do make. However, hypothetical "intermediation of loanable funds" banks would choose very different combinations from real-world "financing through money creation" banks.

Intermediation of loanable funds banks would not, in aggregate, be able to reduce their balance sheets quickly during a crisis. Aggregate deposits of loanable funds could at best fall gradually over time, if depositors, in response to a recession, were to accumulate smaller savings than before. The only other theoretically feasible way for bank balance sheets to shrink would be for depositors to acquire private debt or equity securities from banks during the crisis. But empirical evidence shows that, during crises, holdings of nonbank debt or equity by the nonfinancial sector do not grow significantly. Moreover, this explanation says nothing about how banks' loan books (as opposed to their securities books) could shrink during a crisis.

Therefore, banks in the intermediation model, with the size of their balance sheets changing slowly, would keep lending to riskier borrowers. To compensate for this risk, they would dramatically increase their loan rates to ensure continued profitability.

On the other hand, financing through money creation banks can instantly and massively reduce the quantity of their lending if they think it will improve profitability. To reiterate, this flexibility is possible because deposits represent monetary purchasing power that can—through bookkeeping entries—be destroyed as fast as it was created, rather than representing real savings, which can decline only through reduced production or increased consumption of resources. Banks in the money creation model can immediately demand repayment (or refuse rollover) of a large share of existing loans out of existing deposits, causing an immediate, simultaneous, and large contraction of bank loans and bank deposits, while intermediation banks would experience almost no initial change.

Because this cutback in lending, relative to the intermediation model, reduces existing corporate bank borrowers' ratios of loans to collateral assets, and therefore the riskiness of their outstanding loans, banks initially increase interest rate spreads on these remaining loans far less than in the intermediation model. Much of their response is therefore in the form of quantity rationing rather than changes in interest rate spreads. This is also evident in the behavior of bank leverage, a key balance sheet ratio defined as the ratio of bank assets to net worth. In the intermediation model, bank leverage increases on impact, because losses and thus the decrease in net worth far exceed the gradual decrease in loans. In the money creation model, leverage either remains constant or drops, because the rapid decrease in loans is at least as large as the change in net worth. Finally, the contraction in GDP in the money creation model is typically far larger than in the intermediation model, mainly as a result of severe credit rationing and the ensuing shortages of liquidity throughout the economy.

It is straightforward to demonstrate that these characteristics of money creation models are much more in line with the actual data. Most important, bank lending—both for individual banks and for national banking systems—exhibits frequent, large, and fast jumps. Contrary to typical intermediation models, and again in line with the data, money creation models predict bank leverage ratios that increase during booms and fall during contractions, as well as severe credit rationing during downturns.

The fundamental reason for these differences is that, according to the intermediation narrative, aggregate systemwide deposits must be accumulated through saving physical resources, which by its very nature is gradual and slow. On the other hand, the money creation narrative says that banks can create and destroy deposits instantaneously, because the process involves bookkeeping transactions rather than physical resources. Although deposits are essential to purchases and sales of real resources outside the banking system, they are not themselves physical resources and can be created at almost no cost.

Even though banks do not face technical limits to a quick rise in the quantity of their loans, they still face other restraints. But the most important limit, especially during the boom periods of financial cycles when all banks simultaneously decide to lend more, is their own assessment of their future profitability and solvency. The availability of savings of real resources does not constitute a limit to lending and deposit creation, nor does the availability of central bank reserves. Modern central banks pursue interest rate targets and must supply as many reserves as the banking system demands at those targets. This fact flies in the face of the still very popular deposit multiplier narrative of banking, which argues that banks make loans by repeatedly lending out an initial deposit of central bank reserves.

To summarize, our work builds on the fundamental fact that banks are not intermediaries of real loanable funds, as is generally assumed in the mainstream neoclassical macroeconomics literature. Rather, they are providers of financing, through the creation of new monetary purchasing power for their borrowers. Understanding this distinction has important implications for a host of practical questions. We will conclude with one example, but there are many others.

Practical implication

Many policy prescriptions aim to encourage physical investment by promoting saving, which is believed to finance investment. The problem with this idea is that saving does not finance investment, financing and money creation do. Bank financing of investment projects does not require prior saving, but the creation of new purchasing power so that investors can buy new plants and equipment. Once purchases have been made and sellers (or those farther down the chain of transactions) deposit the money, they become savers in the national accounts statistics, but this saving is an accounting consequence—not an economic cause—of lending and investment. To argue otherwise is to confuse the respective macroeconomic roles of real resources (saving) and debt-based money (financing). Again, this point is not new; it goes back at least to Keynes (Keynes, 2012). But it seems to have been forgotten by many economists, and as a result is overlooked in many policy debates.

The implication of these insights is that policy should place priority on an efficient financial system that identifies and finances worthwhile projects, rather than on measures that attempt to encourage saving, in the hope that it will finance desired investment. The "financing through money creation" approach makes it very clear that with financing of physical investment projects, saving will be the natural result.

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Title: Interview with Nina Eichaker
Author: Scott Harris
From: Between the Lines
Date: June 29, 2016

Between The Lines' Scott Harris spoke with Nina Eichacker, a lecturer in economics at Bentley University and a member of the Dollars and Sense collective. Here she assesses the impact of EU austerity and de-regulation policies that are widely believed to have contributed to the underlying economic insecurity felt by many in Britain that led to the Brexit vote.

NINA EICHACKER: This could be seen in a large way, as a backlash, against not just austerity policies in Britain of the past five years, but also, the longer-term backlash against globalization dynamics that began back in the Reagan-Thatcher period. So, if we think about the consequences of privatization within the U.K. and elsewhere in the West and the world, and we think about the consequences of globalization that really didn't do anything to try to soften the landing for the people in the industries that were going to be most harshly affected by it. We see dynamics in the U.K. that are similar to the dynamics that I think we see here in the U.S. where we have – and I don't know if commiseration is the correct word – but we see this gradual worsening of conditions for a lot of people and we see a failure of the state to step in and help guide, if that is ultimately what is desired for the public at large.

So I think in a big way this vote was a response to those dynamics. And I think that the immigration side of things does certainly play in, I think, when people are in tenuous economic circumstances. You know, it can be tempting to think about migration patterns as a zero sum gain. While I don't necessarily think that's what was going on, I think that the leave campaign really drove those points home in a manipulative fashion. So I think there was a lot of those two factors playing off of each others.

BETWEEN THE LINES: After the Brexit vote, there was a lot of concern in Europe that other nation states may hold similar referendums and could break away from the Europe Union. There's a roiling, right-wing, anti-immigrant, nativist movement in many countries – certainly Marine Le Pen, in France, other nations that are currently in the European Union. Is it possible that the troika, as it's called, the policy-setting body, the European Commission, the European Central Bank and the IMF – Is it possible that in the wake of the Brexit vote, they may reassess the austerity policies that have certainly not gone down well in weaker economies like Greece, Portugal, Spain, Ireland, where those policies on the part of Brussels, have dramatically cut social spending, implemented a lot of unwanted privatization, deregulation seen as linked to very stubborn, high unemployment. Do you think the European Union as a whole will reassess its economic policies and the rejection by increasing numbers of Europeans to that system?

NINA EICHACKER: Well, I certainly hope so. It's strange to be in a moment where the IMF is, first of all, acknowledging that it was wrong about the value of austerity, that it oversold austerity policies as a root to growth. It's strange, but true, that we're in a moment where the IMF has actually acknowledged that provisions of its bailout policies worked out with the European Commission and the European Central Bank for countries like Ireland and Portugal were overly restrictive and benefited bondholder at the expense of the countries that were supposed to be given aid in those moments of crisis.

The question is whether European central banks' mandate to prevent inflation at all costs is so strong that European policymakers can perhaps work in tandem with the IMF in the context of the troika to promote better policy. I think in the absence of strong activist movements at the ground, that we may see worse to come. I certainly hope not. But without a strong human presence on the ground countering those separatist movements, I worry that we will see worse and more divisions to come. I think that without a fiscal union that explicitly protects the interests of people in these different countries as they go through recessions, as they try to improve social services and a provision of public good – without that, the union is doomed to fail, and what is good about it will be missed.

Title: The Slippery Slope of Goals and Incentives
Author: Tim Askew
From: Inc.
Date: June 13, 2016

Management savant Peter Drucker supposedly said, "If you can't measure it, you can't manage it." The only problem with this frequently cited quote is that Drucker never said it. In fact, he actually said things quite the opposite. Like "Culture eats strategy for breakfast."

Last week I attended a fascinating all-day seminar at NYU's Stern School of Business titled "Ethics by Design: How to Use Nudges, Norms and Laws to Improve Business Ethics," sponsored by Ethical Systems.org, the Behavioral Science & Policy Association and CEO Trust. There were over 150 attendees, mostly top-drawer academics with a sprinkling of executives and entrepreneurs. I found it thought-provoking, useful, and even startling.

The day covered many topics, but the general trope was cautionary concerning our ubiquitous business emphasis on quantification, measurement, and goals. While acknowledging that goals can encourage persistence and performance, almost all seminar participants emphasized the caveat that rigid goals will have deleterious effects on corporate culture and long-term corporate health. While historic studies point to the positive impact of goals on increasing business performance, more recent research, including by many of the attendees and presenters, pointed to the the fact that overemphasis on goals encourages unethical behavior. The symptoms of this include increased moral disengagement, decreased individual self-regulation, and hazardous risk-taking.

Put another way, setting and pursuing ambitious corporate goals appears to incentivize employees to cheat, lie, and flimflam. It encourages short-term thinking. It undermines healthy process and culture. It puts too much emphasis on the trees rather than on the forest.

The case against the over reliance on metrics was summed up neatly by Lisa Ordonez, Vice Dean at the Eller College of Management at the University of Arizona and by Marc Hodak, professor at the NYU Stern School. Their presentation was titled "Walking the Tightrope: Balancing the Incentives to Perform vs. Incentives to Cheat."

Dr. Ordonez wrote an influential article for the Harvard Business Review in 2009 (with colleagues Maurice Schweitzer [Wharton], Adam Galinsky [Northwestern-Kellogg School], and Max Bozeman [HBS]) titled "Goals Gone Wild." Her talk last week was premised on two basic conclusions of her research:

Goals cannot create self-sustaining motivation.

Goals cannot be the entire focus of management.

Specific organizational effects Ordonez warns of include systemic problems from narrowed focus, unethical behavior, risk taking, decreased cooperation, and decreased intrinsic motivation. "Goal setting is management by numbers," states Ordonez, and institutional incentives need to be assigned very carefully and in the context of principles.

She cites several episodes of goal-setting culminating in corporate disasters. For example, she points to this year's compliance calamity at Volkswagen. Volkswagen had set two demanding goals for itself: to comply with and effectuate mandated environmental standards and to become the biggest car company in the world.

It did not work out well. As employees and managers at Volkswagen started work on the aggressive company goals, they quickly realized they could not easily meet the strict American (EPA) and European standards. Rather than admit that, they decided to cheat. And cheat massively and systemically. They consciously decided to engineer their cars to fool the national testers and examiners instead of honestly fulfilling environmental and legal requirements. The result is massive fines, loss of reputation and good will, lawsuits as far as the eye can see, and a significantly diminished stock valuation.

Both the recent scandals at the Department of Veteran's Affairs and BP speak to the results of corner-cutting and dishonesty to achieve stretch goals.

Professor Marc Hodak was even more blunt than Dr. Ordonez. Hodak said simply, "Incentive to perform is indistinguishable from incentive to cheat." He points to the incentives for corporate executives to lie, exaggerate, and hide financial truths even from their boards of directors through techniques like channel stuffing sales results.

Hodak offers three solutions to ethics/compliance conundrums:

Approach your goals holistically and put your incentives in the context of a culture of honesty.

Look beyond "performance." Bad behavior hides behind good performance.

Remember why you are in business. Be true to your culture. Always remember who you are.

Ethics and corporate rectitude are not impractical, esoteric matters in the age of compliance. Ethics is increasingly a practical necessity related to profit and ROI. In many cases goals do more harm than good and rigid adherence to specific outcomes can be disastrous.

The solution? I don't know. But the answer is surely somewhere near the corner of ethics, culture, and human meaning.

Ethics is not just a matter of doing good or being righteous. It's actually a selfish thing. As Danny Meyer of Shake Shack puts it, "It is in our self-interest to be good."

Dr. Priyavrat Thereja puts it this way: "If ethics is not the engine of success, in the train of growth, it sure is a guard, with a flag, which may be green, or red."

Title: Help people not banks, reflections on the 2016 Nobel Prize in Economics (Oliver Hart)
Author: Victor Claar
From: Acton Institute
Date: October 12, 2016

[…] In recent years [Nobel prize winner] Professor Hart has turned his attention to another economic problem with a moral dimension: relationships among principals and agents in financial markets, and the question of who might be worth bailing out in the event of another banking collapse.

In a recent NBER working paper, Hart and his University of Chicago coauthor Luigi Zingales argue that large, diversified financial institutions are far more capable of handling risk than their depositors: you and I could lose our savings if our bank fails, but banks have better information about their own risk levels then we depositors do, and they also have the wherewithal to protect themselves from risk.

The authors conclude that those in the most fragile positions – you and I – are in more immediate need of being rescued than banks are. In fact, you and I are especially fragile because we rely on what we presume to be low-risk investments—our bank deposits – to address our most immediate liquidity needs. When we drive through the ATM and make a deposit, or make a direct deposit on payday, we are not acting as venture capitalists. Instead we put our money in banks so we can later buy milk, gasoline, and baseball tickets. Given this reality, they write, "The optimal fiscal response to such a shock is to help people, not banks."

So why are banks—especially big ones—so bad at managing risk? Because we bail them out, of course, but also because the incentives of both the bank's managers and the bank's shareholders are compatible: both want high returns, so managers take on excessive risk.

Complete paper: http://scholar.harvard.edu/files/hart/files/bank_liquid_june-11.pdf

Abstract:
What is so special about banks that their demise often triggers government intervention? In this paper we show that, even ignoring interconnectedness issues, the failure of a bank causes a larger welfare loss than the failure of other institutions. The reason is that agents in need of liquidity tend to concentrate their holdings in banks. Thus, a shock to banks disproportionately affects the agents who need liquidity the most, reducing aggregate demand and the level of economic activity. The optimal fiscal response to such a shock is to help people, not banks, and the size of this response should be larger if a bank, rather than a similarly-sized nonfinancial firm, fails.

Title: Finance is not the Economy
Author: Dirk Bezemer & Michael Hudson
From: Journal of Economic Issues (Vol. 10, No. 3)
Date: September 3, 2016

Dirk Bezemer is a professor of economics at the University of Groningen, the Netherlands. Michael Hudson is a distinguished research professor of economics at the University of Missouri, Kansas City, and a professor at Peking University.

Abstract: Conflation of real capital with finance capital is at the heart of current misunderstandings of economic crisis and recession. We ground this distinction in the classical analysis of rent and the difference between productive and unproductive credit. We then apply it to current conditions, in which household credit — especially mortgage credit — is the premier form of unproductive credit. This is supported by an institutional analysis of postwar U.S. development and a review of quantitative empirical research across many countries. Finally, we discuss contemporary consequences of the financial sector's malformation and overdevelopment.

Why have economies polarized so sharply since the 1980s, and especially since the 2008 crisis? How did we get so indebted without real wage and living standards rising, while cities, states, and entire nations are falling into default? Only when we answer these questions can we formulate policies to extract ourselves from the current debt crises. There is widespread sentiment that this crisis is fundamental, and that we cannot simply "go back to normal." But deep confusion remains over the theoretical framework that should guide analysis of the post-bubble economy.

The last quarter century's macro-monetary management, and the theory and ideology that underpinned it, was lauded by leading macroeconomists asserting that "The State of Macro[economics] is Good" (Blanchard 2008, 1). Oliver Blanchard, Ben Bernanke, Gordon Brown, and others credited their own monetary policies for the remarkably low inflation and stable growth of what they called the "Great Moderation" (Bernanke 2004), and proclaimed the "end of boom and bust," as Gordon Brown did in 2007. But it was precisely this period from the mid-1980s to 2007 that saw the fastest and most corrosive inflation in real estate, stocks, and bonds since World War II.

Nearly all this asset-price inflation was debt-leveraged. Money and credit were not spent on tangible capital investment to produce goods and non-financial services, and did not raise wage levels. The traditional monetary tautology MV=PT, which excludes assets and their prices, is irrelevant to this process. Current cutting-edge macroeconomic models since the 1980s do not include credit, debt, or a financial sector (King 2012; Sbordone et al. 2010), and are equally unhelpful. They are the models of those who "did not see it coming" (Bezemer 2010, 676).

In this article, we present the building blocks for an alternative. This will be based on our scholarly work over the last few years, standing on the shoulders of such giants as John Stuart Mill, Joseph Schumpeter, and Hyman Minsky.

Immoderate debt creation was behind that "Great Moderation" (Grydaki and Bezemer 2013). That is what made this economy the "Great Polarization" between creditors and debtors. This financial expansion took the form more of rent extraction than of profits on production (Bezemer and Hudson 2012) — a fact missed in most analyses today (for a proposal, see Kanbur and Stiglitz 2015). This blind spot results from the fact that balance sheets, credit, and debt are missing from today's models.

The credit crisis and recession are, therefore, a true paradigm test for economics (Bezemer 2011, 2012a, 2012b). We can only hope to understand crisis and recession by developing models that incorporate credit, debt, and the financial sector (Bezemer 2010; Bezemer and Hudson 2012). Here we provide the conceptual underpinning for this claim.

To explain the evolution and distribution of wealth and debt in today's global economy, it is necessary to drop the traditional assumption that the banking system's major role is to provide credit to finance tangible capital investment in new means of production. Banks mainly finance the purchase and transfer of property and financial assets already in place.

This distinction between funding "real" versus "financial" capital and real estate implies a "functional differentiation of credit" (Bezemer 2014, 935), which was central to the work of Karl Marx, John Maynard Keynes, and Schumpeter. Since the 1980s, the economy has been in a long cycle in which increasing bank credit has inflated prices for real estate, stocks, and bonds, leading borrowers to hope that capital gains will continue. Speculation gains momentum — on credit, so that debts rise almost as rapidly as asset valuations.

When the financial bubble bursts, negative equity spreads as asset prices fall below the mortgages, bonds, and bank loans attached to the property. We are still in the unwinding of the biggest bust yet. This collapse is the inevitable final stage of the "Great Moderation."

The financial system determines what kind of industrial management an economy will have. Corporate managers, as well as money managers and funds, seek mainly to produce financial returns for themselves, their owners, and their creditors. The main objective is to generate capital gains by using earnings for stock buybacks and paying them out as dividends (Hudson 2015a, 2015b), while squeezing out higher profits by downsizing and outsourcing labor, and cutting back projects with long lead times. Leveraged buyouts raise the break-even cost of doing business, leaving the economy debt-ridden. Profits are used to pay interest, not to reinvest in tangible new capital formation or hiring. In due course, the threat of bankruptcy is used to wipe out or renegotiate pension plans, and to shift losses onto consumers and labor.

This financial short-termism is not the kind of planning that a government would undertake if its aim were to make economies more competitive by lowering the price of production. It is not the way to achieve full employment, rising living standards, or an egalitarian middle-class society.

To explain how the bubble economy's debt creation leads to debt deflation, we distinguish between two sets of dynamics: current production and consumption (GDP), and the Finance, Insurance and Real Estate (FIRE) sector. The latter is associated primarily with the acquisition and transfer of real estate, financial securities, and other assets. Our aim is to distinguish this financialized "wealth" sector — the balance sheet of assets and debts — from the "real" economy's flow of credit, income, and expenses for current production and consumption.

In the next section, we state our case, distinguishing the financial sector from the rest of the economy, and rent from other income. It is as if there are "two economies," which are usually conflated. They must be analyzed as separate but interacting systems, with real estate assets and household mortgage debt at the center of the bubble economy. In section three, therefore, we examine the significance of household debt. In today's "rentier economy" this represents not real wealth, but a debt overhead. In section four, we discuss the pathologies arising from this overhead: loss of productivity and investment, with rising inequality and volatility.

Finance Is Not The Economy; Rent Is Not Income

Analysis of private sector spending, banking, and debt falls broadly into two approaches. One focuses on production and consumption of current goods and services, and the payments involved in this process. Our approach views the economy as a symbiosis of this production and consumption with banking, real estate, and natural resources or monopolies. These rent-extracting sectors are largely institutional in character, and differ among economies according to their financial and fiscal policy. (By contrast, the "real" sectors of all countries usually are assumed to share a similar technology.)

Economic growth does require credit to the real sector, to be sure. But most credit today is extended against collateral, and hence is based on the ownership of assets. As Schumpeter (1934) emphasized, credit is not a "factor of production," but a precondition for production to take place. Ever since time gaps between planting and harvesting emerged in the Neolithic era, credit has been implicit between the production, sale, and ultimate consumption of output, especially to finance long- distance trade when specialization of labor exists (Gardiner 2004; Hudson 2004a, 2004b). But it comes with a risk of overburdening the economy as bank credit creation affords an opportunity for rentier interests to install financial "tollbooths" to charge access fees in the form of interest charges and currency-transfer agio fees.

Most economic analysis leaves the financial and wealth sector invisible. For nearly two centuries, ever since David Ricardo published his Principles of Political Economy and Taxation in 1817, money has been viewed simply as a "veil" affecting commodity prices, wages, and other incomes symmetrically. Mainstream analysis focuses on production, consumption, and incomes. In addition to labor and fixed industrial capital, land rights to charge rent are often classified as a "factor of production," along with other rent-extracting privileges. Also, it is as if the creation and allocation of interest-bearing bank credit does not affect relative prices or incomes.

It may seem ironic that Ricardo wrote just when Britain's economy was strapped by war debts in the wake of the Napoleonic Wars that ended in 1815. The previous generation's writers, from Adam Smith to Malachy Postlethwayt, had explained how the government paid interest on each new bond issue by adding a new excise tax to cover its interest charge (Hudson 2010). These taxes raised the cost of living and doing business, while draining the economy to pay bondholders. Yet, the banks' Parliamentary spokesman (and indeed, lobbyist) Ricardo established a countervailing orthodoxy by claiming that money, credit, and debt did not really matter as far as production, value, and prices were concerned. His trade theory held that international prices varied only in proportion to their "real" labor costs, without taking money, credit, and debt service into account. Credit payments to bankers, and the distribution of financial assets and debts, are not seen to affect the distribution of income and wealth.

Adam Smith decried monopoly rent, especially for the special trade privileges that the British and other governments created to sell to their bondholders to reduce their war debts. Ricardo emphasized the free lunch of land rent: prices in excess of the cost of production on lands with better than marginal fertility, or implicitly on sites benefiting from favorable location. But like Smith, he treated interest as a normal cost of doing business, and hence as part of the production sector, not as an extractive rentier charge autonomous and independent from the economy of production and consumption. On this ground, he omitted banks and monopolies from his discussion of economic rent — on the assumption that their income was payment for a productive service, and hence interest seemed to be a necessary cost of production.

This assumption underlies today's National Income and Product Accounts (NIPA). Everyone's "income" (not including capital gains, which make no appearance in the NIPA) finds its counterpart in a "product," in this case a service for financial income. Most revenue — and certainly most ebitda (short for "earnings before interest, taxes, depreciation and amortization") — is generated within the FIRE sector. But is it actually part of the "real" economy's sphere of production, consumption, and distribution (in which case it is income); or is it a charge on this sphere (in which case it is rent)? This is the distinction that Frederick Soddy (1926) drew between real wealth and "virtual wealth" on the liabilities side of society's balance sheet.

To answer this question, it is necessary to divide the economy into a "productive" portion that creates income and surplus, and an "extractive" rentier portion siphoning off this surplus as rents: that is, as payments for property rights, credit, or kindred privileges. These are the payments on which the institutionalist school focused in the late nineteenth century. A key policy aim of the institutionalist school was to regulate prices and revenue of public utilities and monopolies in keeping with purely "economic" costs of production, which the classical economists defined as value (Hudson 2012).

Our aim is to revive the distinction between value and rent, which is all but lost in contemporary analysis. Only then can we understand how the bubble economy's pseudo-prosperity was fueled by credit flows — debt pyramiding — to inflate asset markets in the process of transferring ownership rights to whomever was willing to take on the largest debt.

To analyze this dynamic, we must recognize that we live in "two economies." The "real" economy is where goods and services are produced and transacted, tangible capital formation occurs, labor is hired, and productivity is boosted. Most productive income consists of wages and profits. The rentier network of financial and property claims — "Economy #2" — is where interest and economic rent are extracted. Unfortunately, this distinction is blurred in official statistics. The NIPA conflate "rental income" with "earnings," as if all gains are "earned." Nothing seems to be unearned or extractive. The "rent" category of revenue — the focus of two centuries of classical political economy — has disappeared into an Orwellian memory hole.

National accounts have been recast since the 1980s to present the financial and real estate sectors as "productive" (Christophers 2011). Conversely, much of the notional household income in national accounts does not exist in cash flow terms (net of interest and taxes). Barry Z. Cynamon and Steven M. Fazzari (2015) estimate that U.S. NIPA-imputed household incomes overstate actual incomes in cash flow terms by about a third.

That is what makes the seemingly empirical accounting format used in most economic analysis an expression of creditor-oriented pro-rentier ideology. Households do not receive incomes from the houses they live in. The value of the "services" their homes provide does not increase simply because house prices rise, as the national accounts fiction has it. The financial sector does not produce goods or even "real" wealth. And to the extent that it produces services, much of this serves to redirect revenues to rentiers, not to generate wages and profits.

The fiction is that all debt is required for investment in the economy's means of production. But banks monetize debt, and attach it to the economy's means of production and anticipated future income streams. In other words, banks do not produce goods, services, and wealth, but claims on goods, services, and wealth — i.e., Soddy's "virtual wealth." In the process, bank credit bids up the price of such claims and privileges because these assets are worth however much banks are willing to lend against it.

To the extent that the FIRE sector accounts for the increase in GDP, this must be paid out of other GDP components. Trade in financial and real estate assets is a zero-sum (or even negative-sum) activity, comprised largely of speculation and extracting revenue, not producing "real" output. The long-term impact must be to increase debt-to-GDP ratios, and ultimately to stifle GDP growth as the financial bubble gives way to debt deflation, austerity, unemployment, defaults, and forfeitures. This is the sense in which today's financial sector is subject to classical rent theory, distinguishing real wealth creation from mere overhead.

"Money" consists mainly of credit creation since "loans create deposits" (McLeay, Radia and Thomas 2014). So any increase in the sum of final GDP goods-and-services transactions is mirrored in bank credit supporting these transactions (alongside inter-firm trade credit, and now money market placements as well). But since the 1980s, bank lending has risen relative to GDP (that is, relative to income). Much of the credit created since then has been used not for production, but for asset price inflation, driving up costs of living. Consumers — especially those who own real estate, stocks, and bonds — have run deeper into debt in order to maintain their living standards. Real wages have fallen a bit, while after-tax costs of living have increased.

In the United States, FICA wage withholding for Social Security and Medicare has risen to 15.2 percent, medical insurance costs have risen, education charges have risen for buyers of educational diplomas, and the mortgage bubble (which Alan Greenspan euphemized as "wealth creation") has driven up the price of obtaining a home. It is now recognized that U.S. living standards since the 1970s have become debt-fueled, not income-supported. This went largely unnoticed until the bubble burst, since the underlying distinction in credit flows has been excluded from the economics curriculum.

Drawing the Distinction Today

It was not always like that. Economic theory today is in some ways a step backward by expunging the nineteenth-century view — and indeed that of medieval economics and even of classical antiquity — with regard to how banking and high finance intrude into economic life to impose austerity and polarize the distribution of wealth and income. More recently, Marx ([1887] 2016, 1), in Chapter 30 of Capital, distinguished "credit, whose volume grows with the growing volume of value of production" as differing from "the plethora of moneyed capital — a separate phenomenon alongside industrial production." This implied a corollary distinction between transactions in goods and services from those in property and financial assets. Keynes (1930, 217-218) likewise distinguished between "money in the financial circulations" and "money in the industrial circulations."

James Tobin already in 1984 worried that "we are throwing more and more of our resources, including the cream of our youth, into financial activities remote from the production of goods and services" (Tobin

1984, 14). Minsky in his later years warned against what he called "money manager capitalism" as distinct from industrial capitalism (Minsky 1987; Wray 2009). Richard Werner (2005, also 1997) adapted Irwin Fisher's (1933) equation of exchange (MV=PT) to distinguish credit to the "real" economy from that to the financial and "wealth" sectors.

Applying these distinctions to Japanese data, Werner (2005, 222) finds "a stable relationship between 'money' (credit to the real sector) that enters the real economy and nominal GDP." Likewise, Wynne Godley and Gennaro Zezza (2006, 3) observe for the United States: "Major slowdowns in past periods have often been accompanied by falls in net lending. Indeed, the two series have moved together to an extent that is somewhat surprising." Federal Reserve economists note that many contemporary "[a]nalysts have found that over long periods of time there has been a fairly close relationship between the growth of debt of the nonfinancial sectors and aggregate economic activity" (BGFRS 2013, 76).

These correlations suggest a one-on-one ratio between bank credit and the non- financial sector's economic activity (Figure 1). Growth in credit to the real sector paralleled growth in nominal U.S. GDP from the 1950s to the mid-1980s — that is, until financialization became pervasive. Allowing for technical problems of definitions and measurement, growth of bank credit to the real sector and nominal GDP growth moved almost one on one, until financial liberalization gathered steam in the early 1980s.

Credit Decoupled from Income

Figure 1 shows how, after the mid-1980s, the real sector was borrowing structurally more than its income — a remarkable trend noted by few. Wynne Godley wrote in 1999 that "during the last seven years … rapid growth could come about only as a result of a spectacular rise in private expenditure relative to income. This rise has driven the private sector into financial deficit on an unprecedented scale" (Godley 1999, 1).

Households went into negative savings territory. Firms moved from taking their returns as profits from the sale of goods and services to taking their returns as capital gains and other purely financial transactions. General Electric became GE Capital. Maria Grydaki and Dirk Bezemer (2013) explain how the rise of indebtedness explains the eerie tranquility of the bubble years, dubbed by some the "Great Moderation" which Greenspan, Bernanke, and others attributed to (their own) superior monetary policy skills. In reality, it was the "lull before the storm" of debt deflation, as a prescient author noted in 1995 (Keen 1995).

There is contemporary research supporting the classical viewpoint that debt can be a rentier burden, rather than a service to society. Wiliam Easterly, Roumeen Islam, and Joseph Stiglitz (2000) shows that the volatility of growth tends to decrease and then increase with larger financial sectors. In their article, "Shaken and Stirred: Explaining Growth Volatility" (2000, 6), the authors find that "standard macroeconomic models give short shrift to financial institutions … our analysis confirms the role that financial institutions play in economic downturns."

In their article, "Too Much Finance?" Jean-Louis Arcand, Enrico Berkes, and Ugo Panizza (2011) argue that expectation of bailouts may lead a financial sector to expand in size beyond the social optimum. They use a variety of empirical approaches to show that "too much" finance starts to have a negative effect on output growth when credit to the private sector reaches 110 percent of GDP. Stephen G. Cecchetti, M.S. Mohanty, and Fabrizio Zampolli (2011, 1) likewise argues that, "beyond a certain level, debt is a drag on growth." The authors estimate the threshold for government and household debt to be around 85 percent of GDP and around 90 percent for corporate debt. Likewise, as we were writing this article, the OECD and the IMF both issued reports warning of a financial overgrowth (OECD 2015; Sahay et al. 2015).

The Significance of Household Debt

The classical analysis of rent to credit and debt, combined with these recent findings, begs a key question: When does the financial system support production and income formation in a sustainable manner, and when does it support speculation and rents in the form of capital gains, rather than income formation?

The answer to this question will have to be both theoretically sound and institutionally relevant, capturing the specific forms that "unproductive" revenues take in a particular era. For the classical economists, this form was land rent. For Minsky (e.g., 1986), this form was capital gains from stock market investment "on margin" — influenced both by the 1929 Great Crash experience and by the shape of financial markets in the 1950s and 1960s, when he developed his financial instability hypothesis. But, like the classical analysis of rents, the Minskyan progression from "hedge" to "speculative" to "Ponzi" finance is not confined to land markets or stock markets.

In our time, arguably the most significant form that rent extraction has taken is in the household credit markets, especially household mortgages. The contrast is with loans to non-financial business for production. A useful way to discuss this distinction is to categorize loans on two planes: their contribution to income growth and their tendency to increase financial fragility. Table 1 illustrates this. There are both conceptual and empirical grounds to draw the distinction today along these lines. We now discuss them in turn.

[..]

Conceptual Differentiation of Credit

Loans to non-financial business for production expand the economy's investment and innovation, leading to GDP growth. A dollar drawn down as a loan and spent on domestic investment goods will increase domestic incomes proportionally. And, if the business plan on which the loan is given is good, the revenues from increased production will more than suffice to pay off the loan: financial fragility need not develop. Debt increases, but so does income. The debt/income ratio need not rise.

Like loans to non-financial business, household consumer credit provides the purchasing power and the effective demand for GDP to grow. But compared to business loans, it has two features that cause less growth for the same loan amount, and more financial fragility.

The first is a mismatch between the debt burden and the income generated from the loan. Consumer credit is not used to generate the income that will pay off the loan, as with business finance. The revenues from the loans and the debt liabilities are not on the same balance sheet. Unless macroeconomic institutions effectively transfer revenues from firms to households (e.g., as wages), consumer credit creates financial vulnerabilities in household balance sheets.

Second, in terms of how much income is generated for a given debt service burden, household consumer credit is not an efficient way to finance production due to its usually very high interest rates. A number of studies have shown that, compared to business credit, the growth impact of household credit is small (Beck et al. 2012; Jappelli and Pagano 1994; Xu 2000). For every dollar realized in value added by extending credit to households which spend it with firms, more dollars of debt servicing must be paid than is the case for business credit. Bezemer (2012) shows that the ratio of the growth in private debt and the growth in GDP moved from 2:1 on average in the 1950s and 1960s to 4:1 in the 1990s and 2000s. These are rough, but still telling indications. The trend is not exclusively attributable to growth in consumer credit since the 1960s, for an even larger category of household credit is household mortgage credit.

Like consumer credit, household mortgage credit increases the debt, but not the income of households. This increases financial fragility. Unlike consumer credit, mortgage credit for existing properties does not generate current income anywhere else — at least, not in the classical taxonomy of incomes and rents. Mortgage credit is extended to buy assets, mostly already existing. It generates capital gains on real estate, not income from producing goods and services. The distinction becomes blurred to the extent that mortgages are used to finance personal consumption (especially "equity loans" to homeowners) or new construction, but that is a minor part of the total volume of mortgage loans.

Mortgages are also special in that real estate assets have grown into the largest asset market in all western economies, and the one with the most widespread participation. Following classical analysis, if every real estate asset bought on credit skims off the income of the owner-borrower, then the rise in home ownership since the 1970s has sharply increased rent extraction and turned it into a flow of interest to mortgage lenders. Securitization added another dimension to this. Not only domestic homeowners, but also global investors can participate in the mortgage market. As in a Ponzi scheme, the larger the flows of income the mortgage market commands, the longer the scheme can continue. This is a key reason for the unusually long mortgage credit boom synchronized across western economies from the 1990s to 2007.

Household mortgage loans are also unique among types of bank loans for their macroeconomic effects in downturns — that is, for their potential to increase the financial fragility of entire economies. Because of widely held debt-leveraged asset ownership, the effects of falling house prices and negative equity on household consumption are significant on a macroeconomic level. And because real estate collateral is a key asset on bank balance sheets, there is also an effect on banks' own financial fragility. This leads to lending restrictions not only in mortgages, but also to nonfinancial business.

Empirical Evidence

A number of empirical studies have been undertaken in the last few years to corroborate the above conceptual discussion. In Figure 2, based on calculations by Dirk Bezemer, Maria Grydaki, and Lu Zhang (2016), we plot the correlation of income growth with credit stocks scaled by GDP. This provides a proxy for the growth effect of credit over time. The trend is downward from the mid-1980s, and from the 1990s the correlation coefficient is not significantly different from zero. Credit was no longer "good for growth," as many had for so long believed (from King and Levine 1993 to Ang 2008).

[..]

A major reason for this trend was that credit was extended increasingly to households, not business. Figure 3 shows the change in bank credit allocation from 1990 to 2011 for a balanced panel of 14 OECD economies. While the total credit stock expanded enormously in the 1990s and 2000, credit to nonfinancial business was stagnant at about 40 percent of GDP, while its share in overall credit plummeted. By contrast, the share of household mortgage credit issued by banks rose from about 20 to 50 percent of all credit. Òscar Jordà, Alan Taylor, and Moritz Schularick (2014), in their excellent historical study “The Great Mortgaging,” report for a sample of 17 countries an increase from 30 to 60 percent in household mortgage credit as share of GDP since 1900, with by far most of that increase since the 1970s. The costs to income growth were large. Torsten Beck et al. (2012), Bezemer, Grydaki, and Zhang (2016), and Jordà, Taylor, and Schularick (2014) all show with advanced statistical analysis that the contribution of household credit to income growth has become negligible or is plainly negative. Last year, IMF and OECD reports made the same point (Sahay et al. 2015; Cornede, Denk and Hoeller 2015).

The falling growth effectiveness of credit

Such large stocks of household credit do not just depress income growth. As we noted above, they also increase financial fragility. A large number of recent cross- country studies report that the expansion of household credit is positively related to crisis probability (Barba and Pivetti 2009; Büyükkarabacak and Valev 2010; Frankel and Saravelos 2012; Obstfeld and Rogoff 2009; Rose and Spiegel 2011; Sutherland et al. 2012). There is also a clear impact on the length and severity of post-2008 recessions. The mechanism is shown by Karen Dynan (2012) and by Atif Mian and Amir Sufi (2014) for the United States.

More leveraged U.S. homeowners have cut back their spending after 2007. But the nefarious effect of more private credit — a rise which, as we have seen, is driven by the growth in household mortgage credit — on the severity of the post-crisis recession is not confined to the US. Philip Lane and Gian Maria Milesi-Ferretti (2011) find that, on average across a large swath of countries, falls in output, consumption, and domestic demand in 2008–2009 correlate to the pre-crisis increases in the ratio of private credit to GDP.

S. Pelin Berkmen et al. (2012) show that the gap between realized output growth in 2009 with the more optimistic pre-crisis forecasts is strongly correlated to pre-crisis credit growth. They infer that pre- crisis household credit growth is a prime suspect for the causes of the depth of the recession. Similar findings are reported by Cecchetti, Mohanty, and Zampolli (2011), Stijn Claessens et al. (2010); Tatiana Didier, Constantino Hevia, and Sergio Schmukler (2012), and others.

In sum, if we divide bank credit into three categories as in Table 1, our categorization suggests that both household consumer credit and loans to non- financial business are productive — in the sense of providing the purchasing power to support production of goods and services — but with greater buildup of financial fragility in the case of consumer credit. Installment loans were instrumental in developing mass markets for cars, but this made household balance sheets more vulnerable. Many U.S. students could not attain a college degree without student loans. In this sense, these loans are productive by enabling graduates to earn more. But if students cannot find jobs that pay enough extra income to service the loan, it is not productive. In any event, the debt burden after graduation weakens their household balance sheets. In this sense, mortgages and other debts tend to increase financial fragility.

This categorization is not exhaustive and should be further refined within each category. For instance, much lending to non-financial business does not support production. It may take the form of mortgage lending pushing up commercial real estate prices, or loans for mergers and takeovers, or for stock buyback programs. Conversely, household mortgages may be productive to the extent that they are used for new construction. They thus should be distinguished from margin (brokers’) loans and interest-only loans to “flip” houses or commercial real estate, which are unproductive.

These more fine-grained categories cannot be observed in the data in a cross- country consistent manner as done in the above studies. They can be applied in country studies building on the Figure 3 distinctions. But a major obstacle to this research program is not empirical, but paradigmatic: the impression that debt-leveraged real estate valuations represent the economy's wealth, with little recognition that its financing structures undermine wealth creation. To this we now turn.

The Rentier Economy: Wealth or Overhead?

Bank credit to the nonbank "asset" sector (mainly for real estate, but also LBOs and takeover loans to buy companies, margin loans for stock and bond arbitrage, and derivative bets) does not enter the "real sector" to finance tangible capital formation or wages. Its principal immediate effect is to inflate prices for property and other assets. Recent econometric analysis confirms that mortgage credit causes house price to increase (Favara and Imbs 2014) — and not just vice versa, as in the demand-driven textbook credit market theories.

How does this asset-price inflation affect the economy of production and wages and profits? In due course this process involves increasing the debt-to-GDP ratio by raising household debt, mortgage debt, corporate and state, local and government debt levels. This debt requires the real sector to pay debt service — a fact that prompted Benjamin Friedman (2009, 34) to write that "an important question — which no one seems interested in addressing — is what fraction of the economy's total returns … is absorbed up front by the financial industry."

To ignore this rising fraction is to ignore debt and its consequence: debt deflation of the "real" economy. Of course, the reason why debt leveraging continued so long was precisely because credit to the FIRE sector inflated asset prices faster than debt service rose — as long as interest rates were falling. The tidal wave of post-1980 central bank and commercial bank liquidity drove interest rates down, increasing capitalization ratios for rental income corporate cash flow. The result was the greatest bond market rally in history, as the soaring money supply drove down interest rates from their 20-percent high in 1980 to under 1.0 percent after 2008.

A debt-leveraged rise in asset prices has a liability counterpart on the balance sheet of households and firms. Homes, commercial properties, stocks, and bonds are loaded down with debt as they are traded many times by investors or speculators taking out larger and larger loans at easier and easier terms: lower down-payments, zero-amortization (interest-only) loans and outright "liars' loans" with brokers and their bankers filing false income declarations and crooked property valuations, to be packaged and sold to pension funds, German Landesbanks, and other institutional investors. Each new debt-leveraged sale may bid up prices for these assets.

But the credit can be repaid (with interest) only by withdrawing payment from the "real" sector (out of profits and wages), or by selling financialized assets, or borrowing yet more credit ("Ponzi lending"). The rising indebtedness approaching the 2008 crest was carried not so much by diverting current income away from buying goods and services or by selling financial assets, but by loading down the economy's balance sheet and national income with yet more debt (that is, by borrowing the interest falling due, for example, by home equity loans). What kept the "Great Moderation" income growth and inflation levels so "moderate" was an exponential flood of credit (i.e., debt) to carry the accumulation and compounding of interest. It was like having to finance a chain letter on an economy-wide scale, with banks creating the credit to keep the scheme going.

This is the institutional reality behind the negative correlation coefficient of credit and income growth, reported in the previous section. In fact, to assess credit for its income growth potential is to miss its true function in the rentier economic system. The FIRE sector's real estate, financial system, monopolies, and other rent-extracting "tollbooth" privileges are not valued in terms of their contribution to production or living standards, but by how much they can extract from the economy. By classical definition, these rentier payments are not technologically necessary for production, distribution, and consumption. They are not investments in the economy's productive capacity, but extraction from the surplus it produces.

Just as classical rents were defined as transfer payments rather than earned by factors of production, financial investment by itself is a zero-sum activity. With interest and related charges taken into account, it is a negative-sum activity. The problem with the transfer character of financial payments is that the assets backing the loans to buy them, must plunge in price at the point where debt service diverts so much income and liquidity from the real sector that debt-financed asset-price inflation becomes unsustainable. This is confirmed by a recent Bank of International Settlements study. Mathias Drehman and Mikael Juselius (2015) report that debt- service ratios are an accurate early warning signal of impending systemic banking crises, and strongly related to the size of the subsequent output losses.

Financial markets can grow sustainably — that is, without rising fragility — only when loans to the real sector are self-amortizing. For instance, the thirty-year home mortgages typical after World War II were paid over the working life of homebuyers. The interest charges often added up to more than the property's seller received, but the loans financed about two million new homes built each year in the United States in the early post-war decades, creating enough economic growth to pay down the loans.

When building activity slowed, debt growth was kept going by financial engineering and lending at declining rates of interest and on easier payment terms. This is what happened from the 1980s to 2008, and especially after 2001, as the real estate bubble replaced the dot.com bubble of the 1990s. Prices for rent-yielding and financial assets were bid up relative to the size of the real economy. Housing and other property prices (as well as prices for stocks and bonds) rose relative to wages, widening the polarization between property owners and labor. Christopher Brown (2007) showed already before the crisis how household credit is central to this divergence. Financial engineering, which freed household incomes and home equity to be invested in speculative assets, greatly increased the amount of borrowing that household could and did take on. By applying Minsky's categorization, he identified the move from speculative to Ponzi financing structures, and concluded that debt growth, and the consumption growth based on it, was not sustainable. Because a Ponzi scheme is a "pyramid scheme," sucking money from a broad base to a narrow top, financial engineering also increased inequality (see also Brown 2008).

This polarization occurred largely because resources were flowing to FIRE speculation and arbitrage instead of to more moderate-return, fixed capital formation. The main dynamic was financial, not the industrial relationship between employers and workers described by socialists a century ago. It originated in the United States and spread to most industrial economies via the carry trade and other international lending in an increasingly deregulated environment. Toxic financial waste became the most profitable product and the fastest way to quick fortunes, selling junk mortgages to institutional investors in a financial free-for-all.

Robin Greenwood and David Scharfstein's (2012) "The Growth of Modern Finance" provides a telling empirical illustration of the transfer (rather than income- generating) character of today's financial sector. In addition to showing that the financial industry accounted for 7.9 percent of U.S. GDP in 2007 (up from 2.8 percent in 1950), they calculated that much of this took the form of fees and markups — the quintessential transfer payments. Such charges by asset managers of mutual funds, hedge funds, and private equity concerns now account for 36 percent of the growth in the financial sector's share of the economy, as Gretchen Morgenson (2012) reports. Finance also accounts for some 40 percent of corporate profits. But our point is that financial "profits" in the classical scheme are largely rents, not profit. They are not the same thing as industrial earnings from tangible capital formation.

Capital Gains Are Linked to Debt Growth

This raises a vital question for today's economies. Can debt-financed rising asset prices make economies richer on a sustainable basis? If the aim of raising asset prices is to increase the capitalization rate of rents and profits by lowering interest rates, can pension funds, insurance companies, and retirees save enough for their retirement out of current earnings, or can they live by capital gains alone?

Asset prices can rise only by debt creation or by diverting current income. The recognition that such debt-fueled inflation of asset prices is a form of rent extraction is central to our analysis of its unsustainability. By contrast, the now conventional economic models give us no handle to even start addressing these phenomena. By viewing capital gains as transfers instead of as income, we define the long-term sustainability of capital gains and asset prices in terms of trends in disposable income plus debt growth. Just as a Ponzi scheme must collapse with mathematical certainty (even though the timing of the collapse is uncertain), so it is with asset markets that expand faster than income growth. The divergence between income growth and rent extraction (asset price growth and financial transfers) is unsustainable, although, by going global, asset markets can be kept inflated over decades.

What obscures this dynamic is a micro-macro fallacy. Homeowners thought they were getting rich as real estate prices were inflated by easier bank credit. According to representative-agent models, the nation was getting rich as new buyers of homes, stocks, and bonds took on larger debts to sustain this price rise. Alan Greenspan applauded this as wealth creation. Individuals borrowed against their capital gains, hoping that future gains would pay off the new debt they were taking on.

This is not how classical economists described the profitability and accumulation of capital under industrial capitalism. Gains were supposed to be achieved by "real" growth, not by asset-price inflation. The financial drive for capital gains has become decoupled from tangible capital investment and employment.

On the individual micro-level, it may be of little concern whether gains are made by higher asset prices or from direct investment to produce and sell goods. To the corporate manager or raider, speculator or entrepreneur, the financial returns appear equal. But on the society-wide macro-level, there is a micro-macro paradox or "fallacy of composition." Capital gains via asset-price inflation must be fueled by rising indebtedness of the overall economy. Prices for assets will rise by however much a bank is willing to lend, and asset price gains over and above income constitute debt growth in the economy.

In the end, "wealth creation" in the real estate market was fueled by mortgage loans larger than the entire GDP. Each loan was a debt: total mortgage debt doubled relative to the economy in 25 years. That was the cost of "wealth creation." It is not real wealth. It is debt which is a claim on wealth. It derives not from income earned by adding to the economy's "real" surplus, but is a form of rent extraction eating into the economy's surplus.

John Stuart Mill described this contrast in his Principles of Political Economy (1848, 1): "All funds from which the possessor derives an income … are to him equivalent to capital. But to transfer hastily and inconsiderately to the general point of view, propositions which are true of the individual, has been a source of innumerable errors in political economy." In the United States, John Bates Clark popularized the superficial "businessman's" perspective, viewing "cost value" as whatever a buyer of a real estate property or other asset pays. No regard was paid to economically and socially necessary cost-value, which in the classical analysis is ultimately resolvable into the cost of labor. Cost-value is different from a gift of nature, and also differs from financial and other rentier charges built into the acquisition price. These are rents, not costs. But as Simon Patten stated a century ago, this difference faded from economists' memory (see Hudson 2011, 873). Clark's post- classical approach became the preferred Weltanschauung of financial and real estate interests (Clark in Hudson 2011, 875).

"In the present instance," Mill (1848, 2) had elaborated, "that which is virtually capital to the individual, is or is not capital to the nation, according as the fund … has or has not been dissipated by somebody else." In other words, funds not used (Mill used the word "dissipated") in the real economy provide revenue to their owner, but not to the economy for which this revenue is an overhead cost. Mill's term "virtually capital to the individual" is kindred to Frederick Soddy's (1926) term "virtual wealth," referring to financial securities and debt claims on wealth — its mirror image on the liabilities side of the balance sheet. In a bubble economy, the magnitude of such "virtual wealth" is inflated in excess of "real wealth," supporting the ability to carry higher debts on an economy-wide level.

Financial and other investors focus on total returns, defined as income plus "capital" gains. But although the original U.S. income tax code treated capital gains as income, these asset-price gains do not appear in the NIPA. The logic of their exclusion seems to be that what is not seen has less of a chance of being taxed. That is why financial assets are called "invisibles," in contrast to land as the most visible "hard" asset.

Growth of Financial Rents and Its Consequences

We have developed the argument that finance is not the economy. Rent is not income, and asset values do not represent wealth, but rather a claim on the economy's wealth. They are an overhead cost which is not necessary from a production point of view. We have shown that what keeps asset values rising and the overhead burden growing is debt — in particular, household mortgage debt. We reviewed many recent econometric studies which report that debt hurts income growth. It remains for us to discuss the forms in which this occurs.

An economy based increasingly on rent extraction by the few and debt buildup by the many is, in essence, the feudal model applied in a sophisticated financial system. It is an economy where resources flow to the FIRE sector rather than to moderate-return fixed capital formation. Such economies polarize increasingly between property owners and industry/labor, creating financial tensions as imbalances build up. It ends in tears as debts overwhelm productive structures and household budgets. Asset prices fall, and land and houses are forfeited.

This is the age-old pattern of classical debt crises. It occurred in Babylonia, Israel, and Rome. Yet, despite its relevance to the United States and Europe today, this experience is virtually unknown in today's academic and policy circles. There is no perspective forum in which to ask in what forms debt growth may hurt the economy today. To start to fill the gap, we now consider what "too much finance" (Arcand, Berkes and Panizza 2011) does to the economy. It decreases productivity and investment, and increases inequality and volatility. In each of these mechanisms, the role of household mortgages is pivotal.

Loss of Productivity

Faced with the choice between the arduous long-term planning and marketing expense of real-sector investment with single digit returns, the quick (and lower-taxed) capital gains on financial and real estate products offering double-digit returns have lured investors. The main connection to tangible capital formation is negative by diverting new borrowing away from the real sector, as recent studies show (Chakraborty Goldstein and McKinlay 2014).

Industrial companies were turned over to "financial engineers" whose business model was to take their returns in the form of capital gains from stock buyback programs, higher dividend pay-outs, and debt-financed asset takeovers (Hudson 2012, 2015a, 2015b). Charting the ensuing rise of interest and capital gains relative to dividends, and of portfolio income relative to normal cash flow in America's nonfinancial businesses, Greta Krippner (2005, 182) concludes: "One indication of financialization is the extent to which non-financial firms derive revenues from financial investments as opposed to productive activities." Much as real estate speculators grow rich on inflated land values rather than production, so financialization threatens to undermine long-term growth. Since the 1980s, the major OECD economies have seen rising capital gains divert bank credit and other financial investment away from industrial productivity growth. Engelbert Stockhammer (2004) shows a clear link between financialization and lower fixed capital formation rates.

This turns out to be finance capitalism's analogue to the falling rate of profit in industrial capitalism. Instead of depreciation of capital equipment and other fixed investment (a return of capital investment) rising as a proportion of corporate cash flow as production becomes more capital-intensive ("roundabout," as the Austrians say), it is interest charges that rise. Adam Smith assumed that the rate of profit would be twice the rate of interest, so that returns could be shared equally between the "silent backer" and entrepreneur. But as bonds and bank loans replace equity, interest expands as a proportion of cash flow. Nothing like this was anticipated during the high tide of industrial capitalism.

Inequality

Minsky (1986) described financial systems as tending to develop into Ponzi schemes if unchecked. Echoing Marx ([1887] 2016), he focused on the exponential overgrowth and instability inherent in the "miracle of compound interest," underlying such schemes and indeed financialized economies. For the economy at large, such growth sucks revenue and wealth from the broad base to the narrow top, impoverishing the many to enrich the few.

Indeed, income inequality has risen since the late 1980s in most OECD countries. Top incomes have skyrocketed (Atkinson, Piketty and Saez 2011). Thomas Piketty (2014) casts this in terms of a redistribution of income from wage earners to owners of capital, but "capital" includes both physical production assets and real estate and financial assets. Given the large role of real estate lending, it is unsurprising that "the growth of the U.S. financial sector has contributed to the exacerbation of inequality in recent decades" (van Arnum and Naples 2013, 1158). Christopher Brown (2008, 9, Figure 1.3) shows how consumer borrowing has supported effective demand since 1995, and how credit market debt owed by the household sector increased exponentially from the turn of the millennium. Contrary to textbook consensus, household debt had macroeconomic significance, as Brown (2008) shows. More recently, an OECD report also found that financial sector growth in support of household credit expansion exacerbates income inequality (Cournède, Denk and Hoeller 2015).

U.S. data shows that through the 1950s, 1960s, and 1970s, the top 10-percent share remained stable at 30 percent, but started to rise with the explosion of financial credit in the 1980s. However, by 2009, the top 10 percent of income "earners" received about half of the national income, not taking into account capital gains, which is where the largest returns have been made. Anthony Atkinson, Thomas Piketty, and Emmanuel Saez (2011) show that this is a general trend in most developed economies. Rising leverage increases the rate of return for investors who borrow when asset prices are rising more rapidly than their debt service. But the economy becomes more indebted while creating highly debt-leveraged financial wealth at the top. The resulting financial fragility may appear deceptively stable and self-sustaining as long as asset prices rise at least as fast as debt. When home prices are soaring, owners may not resent (or even notice) the widening inequality of wealth as the top "One Percent" widen their lead over the bottom "99 Percent." Home equity loans may give the impression that homes are "piggy banks," conflating the rising debt attached to them with savings in a bank account. Real savings do not have to be paid off later. Mortgage borrowing does.

The "Bubble Illusion" may keep spending power on a rising trend even while real wage income stagnates, as it has done in the United States since the late 1970s. Our analysis that Ponzi-like financial structures exacerbate inequality is reflected in the joint rise of inequality and the share of bank credit to the FIRE sector, as Bezemer (2012a, 2012b) demonstrates. Brown (2007) showed already before the crisis how household credit is central to this. Financial engineering, which freed household incomes and home equity to be invested in speculative assets, greatly increased the amount of borrowing that household could and did take on.

Instability

The Ponzi dynamic explains why financialization first leads to more stability, but then to instability and crises. Easterly, Islam, and Stiglitz (2000) showed that the volatility of economic growth decreases as the financial sector develops in its early stages, but that finance means more instability when credit-to-GDP ratios rise above 100 percent in more "financially mature" (i.e., debt-ridden) economies. Is it a coincidence that this was just the level above which Arcand, Berkes, and Panizza (2011) find that credit growth starts slowing down real-sector growth? After the crisis, a plethora of research has shown that a larger credit overhead increases the probability of a financial crisis and deepens post-crisis recessions (see, for instance, Barba and Pivetti 2009; Berkmen et al. 2012; Claessens et al. 2010)

Concluding Remarks

The banking and financial system may fund productive investment, create real wealth, and increase living standards; or it may simply add to overhead, extracting income to pay financial, property, and other rentier claimants. That is the dual potential of the web of financial credit, property rights, and debts (and their returns in the form of interest, economic rent, and capital gains) vis-à-vis the "real" economy of production and consumption.

The key question is whether finance will be industrialized — the hope of nineteenth-century bank reformers — or whether industry will be financialized, as is occurring today. Corporate stock buybacks or even a leveraged buyout may be the first step toward stripping capital and the road to bankruptcy rather than funding tangible capital formation. In Keynesian terms, savings may equal new capital investment to produce more goods and services; or they may be used to buy real estate, companies, and other property already in place or financial securities already issued, bidding up their price and making wealth more expensive relative to what wage-earners and new businessmen can make. Classical political economy framed this problem by distinguishing earned from unearned income and productive from unproductive labor, investment, and credit. By the early twentieth century, Thorstein Veblen and others were distinguishing the dynamics of the emerging finance capitalism from those of industrial capitalism. The old nemesis — a land aristocracy receiving rent simply by virtue of having inherited their land, ultimately from its Norman conquerors — was selling its property to buyers on credit. In effect, landlords replaced rental claims with financial claims, evolving into a financial elite of bankers and bondholders.

Conventional theory today assumes that income equals expenditure, as if banks merely lend out the savings of depositors to borrowers who are more "impatient" to spend the money. In this view, credit creation is not an independent and additional source of finance for investment or consumption (contrary to Marx, Veblen, Schumpeter, Minsky, and other sophisticated analysts of finance capitalism). "Capital" gains do not even appear in the NIPA, nor is any meaningful measure provided by the Federal Reserve's flow-of-funds statistics. Economists thus are operating "blindly." This is no accident, given the interest of FIRE sector lobbyists in making such gains and unearned income invisible, and hence not discussed as a major political issue.

We therefore need to start afresh. The credit system has been warped into an increasingly perverse interface with rent-extracting activities. Bank credit is directed into the property sector, with preference to rent-extraction privileges, not the goods- and-service sector. In boom times, the financial sector injects more credit into the real estate, stock, and bond markets (and, to a lesser extent, to consumers via "home equity" loans and credit card debt) than it extracts in debt service (interest and amortization). The effect is to increase asset prices faster than debt levels. Applauded as "wealth creation," this asset-price inflation improves the economy's net worth in the short run.

But as the crash approaches, banks deem fewer borrowers creditworthy and may simply resort to fraud ("liars' loans," in which the liars are real estate brokers, property appraisers and their bankers, and Wall Street junk-mortgage packagers). Exponential loan growth can be prolonged only by a financial "race to the bottom" via reckless and increasingly fraudulent lending. Some banks seek to increase their market share by hook or by crook, prompting their rivals to try to hold onto their share by "loosening" their own lending standards. This is what happened when Countrywide, Wachovia, WaMu, and other banks innovated in the junk-mortgage market after 2001, followed by a host of community banks. Rising fragility was catalyzed by Wall Street and Federal Reserve enablers and bond-rating agencies, while a compliant U.S. Justice Department effectively decriminalized financial fraud.

The 2008 financial crash pushed the bubble economy to a new stage, characterized by foreclosures and bailouts. Faced with a choice between saving the "real" economy by writing down its debt burden or reimbursing the banks (and ultimately their bondholders and counterparties) for losses and defaults on loans gone bad, the policy response of the US and European governments and their central banks was to save the banks and bondholders (who incidentally are the largest class of political campaign contributors).

This policy choice preserved the remarkable gains that the "One Percent" had made, while keeping the debts in place for the "99 Percent." This accelerated the polarization that already was gaining momentum between creditors and debtors. The political consequence was to subsidize the emerging financial oligarchy.

In light of the fact that "debts that can't be paid, won't be paid," the policy question concerns how they "won't be paid." Will resolving the debt overhang favor creditors or debtors? Will it take the form of wage garnishments and foreclosure, and privatization selloffs by distressed governments? Or will it take the form of debt write- downs to bring mortgage debts and student loan debts in line with the ability to pay? This policy choice will determine whether "real" economic growth will recover or succumb to post-bubble depression, negative equity, emigration of young skilled labor, and a "lost decade." According to our analysis, the present choice of financial and fiscal austerity in much of Europe threatens to subject debt-ridden economies to needless tragedy.

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Samenvatting

De financiële crisis van 2008 heeft duidelijk gemaakt dat de financiële sector niet kan worden gezien als een economisch eiland, maar dat deze een fundamenteel en infrastructureel onderdeel is van de economie. De afgelopen decennia is de invloed van de sector op de economie en samenleving sterk toegenomen. Zo zijn financiële producten en instrumenten een belangrijkere rol gaan spelen voor burgers, bedrijven en (semi)overheden.

Er is tot nu toe maar beperkte aandacht voor het feit dat de samenleving sterk afhankelijk is geworden van de financiële sector en dat vraagt om aangrijpingspunten voor beleid in die samenleving. Het kan ook nopen tot heroverweging van bestaand beleid, zeker waar bijvoorbeeld fiscale facilitering het gebruik van financiele producten (denk aan hypotheken) extra heeft bevorderd en een ongebreidelde groei van de financiële sector mede mogelijk heeft gemaakt. De samenleving is door haar grotere afhankelijkheid van de financiële sector erg kwetsbaar geworden voor verstoringen in de financiële sfeer. Andersom raken macroeconomische ontwikkelingen door afhankelijkheden en verwevenheden de financiële sector in versterkte mate.

In dit rapport ligt de nadruk op hoe de samenleving in een betere verhouding tot de financiële sector kan komen te staan. Hoe kan zij weerbaarder worden tegen onevenwichtigheden in de financiële sfeer, maar ook hoe kan zij bijdragen aan een beter functionerende financiële sector? Het bevorderen van de financiële weerbaarheid van de samenleving ligt in belangrijke mate binnen de invloedssfeer van het nationale beleid. Dit rapport doet daartoe een aantal aanbevelingen. Tevens constateert de wrr dat het huidige financiële-sectorbeleid zich moeizaam verhoudt tot de complexiteit en onzekerheden (technologisch, monetair, etc.) waaraan de sector blootstaat. Sterker inzetten op robuustheid kan de sector speelruimte verschaffen om in te spelen op die onzekerheden. De wrr acht het dan ook wenselijk te komen tot een doeltreffender financiële-sectorbeleid, naast beleid dat aangrijpt op de samenleving. Ondanks het open karakter van de Nederlandse economie en internationale afspraken (en voorgeschreven wet- en regelgeving) is ook richting financiële sector sprake van nationale beleidsruimte. Wel is het zo dat die aanzienlijk beperkter is dan de ruimte voor beleid gericht op de samenleving; dat laatste betreft immers vooral sociaaleconomisch beleid dat in het hart ligt van de nationale beleidsautonomie.

Een ander punt betreft de politieke betrokkenheid. Het bredere beleidsperspectief dat de wrr schetst impliceert een noodzaak om de politieke dimensie van de problematiek te onderkennen. Financiële stabiliteit en de financiële diensten zelf zijn van fundamenteel belang voor het functioneren van de samenleving; dit vraagt om een periodieke – en minder incidentgedreven – betrokkenheid van de politiek. De

problematiek van de financiële sector kan dan ook niet los worden gezien van het sociaaleconomisch beleid. In dit speelveld bevinden zich politieke keuzes en afwegingen. De wrr doet voorstellen om de politieke dimensie van de problematiek beter tot zijn recht te laten komen.
De positie van de politiek en het parlement is temeer van belang omdat er een aanzienlijke nationale beleidsruimte is. Dat geldt bij uitstek voor de sociaaleconomische beleidsterreinen (van pensioenen tot verzelfstandiging van publieke instellingen), die veel meer centraal komen te staan door de kanteling van perspectief die wordt voorgestaan in dit wrr-rapport. Zo vallen pensioenfondsen binnen de nationale beleidsruimte omdat zij het domein zijn van het binnenlandse sociaaleconomische beleid.

Dominantie van financiële relaties
De Nederlandse economie en samenleving zijn veel afhankelijker geworden van de financiële sector en bewegingen op de financiële markten. Zowel de bezittingen als de schulden van huishoudens zijn explosief toegenomen, waardoor de geringste beweging in rente en aandelenmarkten een wezenlijke invloed heeft op het huishoudboekje. Grote bedrijven en ook pensioenfondsen laten zich in hun strategie en bedrijfsvoering beïnvloeden door kortetermijnontwikkelingen op de financiële markten. Het mkb is sterk afhankelijk van banken geworden. En ook semipublieke instellingen hebben zich op het glibberige terrein van financiële markten begeven.

… en deze ontwikkelingen zorgen voor maatschappelijke problemen
De veranderingen in de relaties tussen de financiële sector, de economie en de samenleving hebben tot een aantal maatschappelijke problemen geleid.
Het eerste kernprobleem is de inherente instabiliteit van de financiële sector. Financiële crises zijn kostbaar. Bijvoorbeeld vanwege de kosten voor de overheid om banken te redden, de verliezen die mensen en bedrijven lijden en de negatieve gevolgen van de met een crisis samenhangende onzekerheid voor de economische groei. Maar ook in niet-crisissituaties zijn er kosten. Sterk procyclisch opereren van de financiële sector is een voorbeeld, waardoor er in een opgaande economie te veel krediet voorhanden is en er tijdens een recessie overmatig wordt geknepen.
Ten tweede is er sprake van een grote dominantie van de financiële sector in de economie en samenleving. Zo worden huishoudens, bedrijven en semioverheden blootgesteld aan een veelheid van financiële producten, en zijn zij door hoge schulden dan wel (pensioen)besparingen extra gevoelig voor ontwikkelingen in de financiële sector. Het financieel systeem is hierdoor eerder leidend dan volgend of faciliterend geworden.
Ten derde versterkt de financiële sector de kortzichtigheid in de economie en de samenleving, waardoor financiële kortetermijnprikkels belangrijker worden dan langetermijnoverwegingen. Het hyperactieve gedrag van de financiële wereld zet de langetermijnoriëntatie in de reële economie en samenleving onder druk, terwijl deze oriëntatie noodzakelijk is voor het doen van investeringen in menselijk en fysiek kapitaal.

uitdagingen voor nederland
De financiële sector en de samenleving zijn in een gespannen relatie tot elkaar komen te staan. Hierdoor schiet de economische en maatschappelijke bijdrage van de sector tekort. Dit plaatst de Nederlandse samenleving en de politiek voor een lastige opgave. Aan de ene kant is het zaak om te komen tot een robuuster financieel systeem dat de economische ontwikkeling ondersteunt. Aan de andere kant is het zaak om de samenleving en de economie weerbaarder en minder afhankelijk te maken van de financiële sector. De invloed van, en blootstelling aan de financiële dynamiek is te groot. Een brede beleidsoriëntatie is hiertoe noodzakelijk.
De wrr hoopt dat de verbreding van het perspectief naar de samenleving kan bijdragen aan een meer vruchtbare dialoog tussen sector en samenleving, en onderkent dat de financiële sector onderdeel is van diezelfde samenleving.
De hoofdpunten van beleid staan hieronder kort samengevat. We werken die vervolgens uit in aanbevelingen voor de financiële sector en de politiek.

Naar een bredere beleidsoriëntatie: samenleving en sector
• De kernopdracht is om te streven naar een minder dominante en meer ondersteunende rol van financiële diensten in de samenleving. Daarvoor zijn aanpassingen nodig in de samenleving en in de financiële sector.
• De samenleving heeft zich erg afhankelijk gemaakt van de financiële sector, en is daardoor heel gevoelig geworden voor onevenwichtigheden in de financiële sfeer. Door deze afhankelijkheid te verminderen is de samenleving beter bestand tegen financiële crises en de procyclische impulsen vanuit de financiële sector.
• Financiële instabiliteit blijft een belangrijk aandachtspunt. Scherper inzetten op de robuustheid van de sector is nodig, zeker ook gezien de vele onzekerheden waaraan de financiële sector onderhevig is en de speelruimte die zij behoeft.
• De politieke dimensie van het beleid moet worden onderkend en vraagt om een meer structurele en periodieke betrokkenheid vanuit de nationale politiek. Onderken het bestaan van nationale beleidsruimte.
aanbevelingen

De wrr doet de volgende aanbevelingen voor een financieel weerbare samenleving:

Verminder blootstelling aan de financiële dynamiek
De blootstelling van de samenleving aan financiële dynamiek moet worden beperkt. Het gaat dan met name over drie zaken: 1. beleid terugdringen dat schulden aangaan fiscaal faciliteert; 2. inzetten op beleid dat een productievere aanwending van vermogens stimuleert; en 3. het verminderen van de doorwerking van de financiële dynamiek in de economie en de samenleving.
In het belastingstelsel zit nu een schuldenbias, bijvoorbeeld via de hypotheekrenteaftrek. Deze stimulans dient te worden teruggedrongen. Complementair hieraan kan worden ingezet op een productievere aanwending van private vermogens. Het verantwoord faciliteren van overheveling van vermogen tussen generaties (van

oud naar jong) kan hierbij helpen. Dit biedt ‘eigen vermogen’ aan de jongere generatie en drukt zo de noodzakelijke schuldfinanciering voor de aankoop van een huis. Om dezelfde reden kan een grotere flexibiliteit van besparingen vroeg in het leven wenselijk zijn. Zo kan worden overwogen om voor het bij elkaar krijgen van eigen geld bij de aankoop van een eigen woning aan het begin van de wooncarrière een ‘bouwspaarfaciliteit’ te introduceren met enige (tijdelijke) verlichting van afdrachten aan het pensioenfonds.

Ook dient de overheid terughoudender te zijn bij de automatische vertaling van marktsignalen in wet- en regelgeving. Een belangrijk voorbeeld hiervan betreft de dekkingsgraadeisen aan pensioenfondsen en de gehanteerde rekenrente die hieraan ten grondslag ligt. Door deze eisen zijn pensioenfondsen in sterkere mate afhankelijk van de dynamiek op financiële markten. Deze eisen komen voort uit de structuur van het pensioensysteem dat door een verdelingsvraagstuk (het geld van verschillende generaties zit bij elkaar) en beloofde zekerheden telkens via de dekkingsgraad beoordeeld moet worden op solvabiliteit. Dit geeft een kortetermijnbias die meer productieve langetermijninvesteringen belemmert. In de kern is het pensioen dat uiteindelijk beschikbaar is afhankelijk van de verdiencapaciteit in de toekomst. Het pensioenvermogen moet dus met een lange horizon belegd kunnen worden, zodat het bijdraagt aan de duurzame groei van de economie.

Nederland heeft trekken van een renteniersnatie door de hoge opgebouwde vermogens onder ouderen en de aanzienlijke afgedwongen pensioenbesparingen. Een productievere inzet van vermogen verdient aandacht.

Wees voorzichtig met creëren van financiële afhankelijkheden

Onvoldoende is onderkend dat het verleggen van verantwoordelijkheden naar individuen (‘de participatiesamenleving’) en het via verzelfstandiging beleggen van publieke diensten bij semipublieke instellingen tot onverantwoorde risico’s kunnen leiden. Financiële instellingen plaatsen zich in de ruimte die ontstaat tussen de schakels in het verzelfstandigde of geïndividualiseerde veld. De prikkels bij financiële instellingen stroken niet per definitie met de belangen van de te bedienen individuen of de verzelfstandigde instellingen. Bovendien zijn de financieringsmogelijkheden verleidelijk voor individuen en de instellingen. Zo bood de enorme leencapaciteit woningcorporaties de gelegenheid voor megalomane projecten en waren individuen gevoelig voor de (gesuggereerde) rijkdom die via beleggingshypotheken mogelijk zou worden.

Versterk de onderhandelingspositie van klanten

De onderhandelingspositie van afnemers van financiële diensten ten opzichte van de verkopende partij moet worden versterkt. De huidige stappen naar een betere onafhankelijke informatieverstrekking en advisering zijn toe te juichen, maar hebben een beperkte effectiviteit. In lijn met de aanbevelingen van de CommissieWijffels acht de wrr het belangrijk instellingen voor te schrijven transparante standaardversies van complexe (veelal langlopende) producten aan te bieden. Een dergelijke standaardisatie werkt ordenend en dient de belangen van de consument.

Daarnaast dient de empowerment (countervailing power) aan de vraagkant verder te worden versterkt. Gedacht kan worden aan het faciliteren van de krachtenbundeling van consumenten bijvoorbeeld door het stimuleren van collectieve inkoop (zie de rol van consumentenorganisaties bij de inkoop van energie). Ook zijn klanten gebaat bij effectieve maatschappelijke 'waakhonden' die opkomen voor hun belangen.

Versterk weerbaarheid van semipublieke instellingen
De professionalisering die mogelijk is met verzelfstandiging kan een groot goed zijn, maar vereist randvoorwaarden en een beperking van het speelveld. Zonder overzichtelijk speelveld en randvoorwaarden kan het niet verrassend zijn dat ontsporingen plaatsvinden. De reflex van de overheid is om de oplossing te zoeken in betere governance (zowel extern toezicht als intern toezicht via de Raad van Toezicht/Raad van Commissarissen). Hoe gewenst ook, zonder juiste randvoorwaarden en afbakening van het speelveld schiet dit toezicht tekort. Ervaringen in de woningcorporatiesector hebben inmiddels geleid tot een afbakening van het speelveld aldaar. Dit neemt niet weg dat een versterking van de interne governance gewenst is, en dat meer gestuurd moet worden op risico-inschattingen in combinatie met meerjarenbegrotingen en het onderkennen van scenario's. Dit meer toekomstgericht opereren behoeft in het bijzonder aandacht.
Een belangrijk hiaat blijft dat de verzelfstandigde organisaties in bijvoorbeeld het hoger onderwijs en de zorg geacht worden zelf incidentele grote investeringen (denk aan huisvesting) te ondernemen en realiseren. De combinatie van het incidentele karakter en de complexiteit van dergelijke beslissingen – met de grote risico's van dien–vraagt om problemen. De instelling is overgeleverd aan financiële partijen en projectontwikkelaars en kan zelf onvoldoende tegenwicht bieden. De primaire taak en expertise van management en Raad van Toezicht zijn immers gericht op het voorzien in de publieke taakvervulling, zoals het verzorgen van goed onderwijs in het geval van een onderwijsinstelling. Dat verhoudt zich niet met grote vastgoed- en andere investeringsprojecten. Wat ook speelt, is dat zodra zaken mis dreigen te gaan, de publieke taak snel onder druk komt te staan (al is het maar omdat management en toezicht door de problemen van 'het project' in beslag worden genomen). En zodra het is misgegaan en de continuïteit van de instelling in gevaar is, is het zeer wel mogelijk dat de overheid reddend moet optreden.
De wrr raadt aan de waarborgen voor incidenteel grote investeringen in het semioverheidsveld te versterken. Gedacht zou kunnen worden aan het organiseren van een verplichte externe toetsing van investeringen en contracten. Daarnaast kan het scherper afbakenen van het speelterrein van instellingen wenselijk zijn. Ook dit kan bijdragen aan het effectiever en behapbaarder maken van het interne toezicht.

De wrr doet de volgende aanbevelingen voor een robuustere financiële sector:

Onderken de complexiteit van de financiële sector
De overheid moet onderkennen dat er fundamentele onvoorspelbaarheden zijn in

de financiële sector. Samen met de nauwe verwevenheden tussen de financiële sector en de samenleving creëert dit een ingewikkeld speelveld. Het onderkennen van deze complexiteit moet een belangrijk uitgangspunt zijn van het overheidsbeleid. Alleen dan is er voldoende scherpte en kritisch vermogen om daadwerkelijk in te spelen op de uitdagingen die de financiële sector meebrengt en om te anticiperen op onzekerheden. Het huidige vertrouwen in de grote hoeveelheid gedetailleerde regels is tegen deze achtergrond niet gerechtvaardigd. Nog sterker sturen op de robuustheid van de sector moet daarom centraal staan.

Andere attitude binnen financiële sector
Banken en verzekeraars zullen veel meer zelf moeten uitstralen dat buffers van groot belang zijn. Ook zullen zij bereid moeten zijn mee te denken over hoe activiteiten van groot maatschappelijk belang ('essentiële functies') kunnen worden veiliggesteld. Als dat goed is geregeld, is grotere vrijheid in andere activiteiten mogelijk.
Zonder eigen verhaal en zonder eigen openingen te creëren dreigen met name banken te worden veroordeeld tot het opereren in een volstrekt dichtgetimmerd 'reservaat' zonder speelruimte, en dat in een bedrijfstak die mede door nieuwe concurrenten (fintech etc.) aan grote veranderingen onderhevig is.

Systeemrisico's tegengaan
Systeemrisico's van financiële instellingen ontstaan door een combinatie van excessieve kredietgroei, verwevenheid binnen het financieel systeem en met de samenleving, en kuddegedrag. Een belangrijke bron voor systeemrisico's is dat vele instellingen tegelijk op eenzelfde manier reageren op prikkels en dezelfde strategie volgen, waardoor schokken zelfversterkend worden. Bankregulering kan dit in de hand werken, bijvoorbeeld omdat deze kan leiden tot een grotere uniformiteit in risicomanagementbenaderingen, en dus tot meer uniform handelen. Ook de fixatie op financiële markten lokt automatismen en kuddegedrag uit bij financiele spelers. Zo is de manier waarop kredietbeoordelaars naar risico's kijken vaak richtinggevend voor het beleid van financiële instellingen.
De consequentie is dat de financiële sector sterk procyclisch is. In goede tijden worden (onverantwoorde) risico's opgebouwd, onder meer door excessieve kredietverlening. Zogenoemd macroprudentieel beleid kan helpen met bijvoorbeeld anticyclische kapitaalbuffers. De hoogte van die buffers is afhankelijk van de opbouw van extra buffers in voorspoedige tijden. De uitwerking loopt via risicoinschattingen die juist in die gunstige tijden vaak te optimistisch zijn. Het is moeilijk heel optimistisch te zijn over de effectiviteit van dit beleid: veiligheidsmarges zijn nodig, en dit verhoudt zich slecht met de fine-tuning van kapitaalbuffers waartoe men zich heeft overgegeven.
Restricties aan de hoogte van leningen (maximale loan to value (ltv) en loan to income (lti)-ratio's) vormen een ander belangrijk macroprudentieel instrument tegen financiële zeepbellen en andere onevenwichtigheden. De Nederlandse ltvratio's zijn nog altijd erg hoog (fsb 2014). Grote politieke gevoeligheden en verwevenheden

met andere beleidsdossiers (bijvoorbeeld het huizenbeleid) moeten hierbij worden onderkend.

Meer kapitaal (eigen vermogen) onontkoombaar

Het primaire instrument voor robuustheid is eigen vermogen. Financiële spelers dienen hogere buffers te hebben om schokken op te kunnen vangen. Dit vereist het verhogen van het ongewogen eigen vermogen van banken. Dit is niet alleen nodig om tegen een stootje te kunnen, maar ook om minder afhankelijk te zijn van detaillistische regelgeving. De wrr acht een hoger eigen vermogen dan de huidige (ongewogen) 4% ratio noodzakelijk en wenselijk. Nederlandse banken worden hierdoor versterkt. Geenszins kunnen en mogen zorgen over de internationale concurrentiepositie van Nederlandse banken als contra-argument dienen. Een betere kapitalisatie geeft juist kracht aan het bankwezen, en is in het belang van de samenleving.

Daarnaast is ook een geheel andere kijk nodig op buffers. Die moeten niet gezien worden als kostenpost, maar als een vorm van risicodragend vermogen die – net als in andere bedrijfstakken – het mogelijk maakt om in te spelen op de behoeften van de samenleving, en ook op de vele onzekerheden (waaronder fintech) waaraan financiële instellingen onderhevig zijn. De wetgever kan hier aan bijdragen door de nadelige fiscale behandeling van eigen vermogen (t.o.v. vreemd vermogen) teniet te doen.

Denk na over brandgangen en ringfences in het financieel systeem

Sinds de crisis zijn verschillende voorstellen gepresenteerd om 'omheiningen' (ring fences) binnen financiële instellingen te introduceren: het idee is om de verschillende onderdelen van een financieel conglomeraat zodanig van elkaar af te scheiden, dat problemen van het ene bedrijfsonderdeel zich niet (direct) vertalen naar andere bedrijfsonderdelen. Het gaat er dan om de meer 'publieke activiteiten' zoals mkb-kredietverlening en het betalingsverkeer veilig te stellen en zoveel mogelijk los te koppelen van de grote dynamiek van financiële markten. Ringfences kunnen gezien worden als brandgangen binnen een financiële instelling. Aan brandgangen kan ook worden gedacht tussen financiële spelers. Dan gaat het beperken van domino-effecten en kuddegedrag.

Juist de eenvoud van maatregelen zou de complexiteit van het systeem kunnen verminderen. Bovendien zou dat beleidsmakers meer mogelijkheden geven om het functioneren van het systeem beter te kunnen beheersen. De wrr acht het belangrijk hier nader naar te kijken.

Voor financiële instellingen zou een dergelijke loskoppeling duidelijk kunnen maken welk deel van hun activiteiten in het 'reservaat' ligt (het 'publieke' deel) en waar ze juist meer speelruimte krijgen. Ook hier geldt dat financiële instellingen er zelf belang bij kunnen hebben tot een soort segmentering te komen. Zoals het nu is geregeld, zien banken al hun activiteiten beperkt door rigide regelgeving en toezicht.

Diversiteit stimuleren

Diversiteit is van groot belang voor het indammen van systeemrisico's. Onderkend moet worden dat de topzware structuur van de Nederlandse financiële sector en de grote afhankelijkheid van een klein aantal banken systeemrisico's vergroot. De politiek moet veel sterker inzetten op diversiteit en variëteit in de financiële sector. Nadrukkelijk gaat het hier niet om diversiteit binnen financiële instellingen, maar tussen financiële instellingen en financieringsbronnen. Dit geldt vooral voor het Nederlandse bankwezen.
Toetredingsbarrières voor nieuwe spelers zijn hoog. Gevestigde systeembanken hebben door impliciete overheidsgaranties concurrentievoordelen. Daarnaast zijn kleine en grote banken aan grofweg dezelfde regels onderhevig, wat in het nadeel is voor nieuwe toetreders. Regelgeving en toezichtspraktijken die bijdragen aan uniformiteit moeten kritisch worden bekeken en waar mogelijk worden herzien.

De problematiek van diversiteit beperkt zich echter niet tot toetredingsbarrières binnen het bankwezen. Juist omdat banken in de Nederlandse sector zo'n dominante rol spelen, moeten alternatieve financieringskanalen worden gestimuleerd. Institutionele beleggers kunnen een veel belangrijkere rol spelen, en ook directe financiering uit de markt zou een belangrijkere rol moeten gaan spelen.

De wrr doet de volgende aanbevelingen voor politieke betrokkenheid:

Streef naar een integrale benadering van beleid
Een beleidsstrategie gericht op het herstellen van de balans tussen de samenleving en de financiële sector vergt aandacht voor sociaaleconomisch beleid. Het is van belang dat daarbij wordt gestreefd naar samenhang in het gevoerde beleid. Een voorbeeld is macroprudentieel beleid dat loan-to-value-eisen stelt aan hypotheekleningen, waarmee getracht wordt onevenwichtigheden in het financieel systeem te mitigeren. Dit beïnvloedt de woningmarkt en vereist afstemming met beleid op het gebied van de huurmarkt (minder toegankelijke koopmarkt vereist huurwoningen), het pensioenstelsel (verplichte afdracht van een significant deel van de besparingen) en het belastingsysteem (hypotheekrenteaftrek stimuleert het maken van schulden).
Daarnaast moet worden gestreefd naar beleidsconsistentie door de tijd heen. Uit onderzoek blijkt dat beleid zelf een sterk procyclisch karakter heeft: regels worden vaak afgezwakt tijdens periodes van euforie (waardoor bijvoorbeeld zeepbellen ontstaan), dus precies op het moment dat het beleid eigenlijk aangescherpt moet worden. Dit probleem kan in enige mate worden ondervangen door anticyclische automatismen in het beleidsproces te bouwen. Voor de financiële sector zou het kunnen helpen de publieke belangen duidelijker te markeren, langere periodes van beleidsevaluatie te hanteren en via periodieke betrokkenheid van het parlement een meer geïnformeerde en minder opportunistische betrokkenheid af te dwingen.

Organiseer periodieke politieke betrokkenheid
Zelfs bij maatregelen die evident op de lange termijn brede positieve effecten zullen

hebben, moet er aandacht zijn voor herverdelingsvraagstukken op de korte termijn. Dat vergt politieke deliberatie, afwegingen en het maken van moeilijke keuzes. Om dit politieke proces te ondersteunen kan worden ingezet op een periodieke en via hoorzittingen georganiseerde betrokkenheid van politieke en maatschappelijke actoren. Het organiseren en activeren van een 'intelligence' gericht op de wisselwerking tussen beleidsterreinen zou hierbij een belangrijke stap zijn. Rijkskennisinstellingen zoals het cpb en het cbs zouden kunnen bijdragen aan een betere en meer gestructureerde informatievoorziening.
Om blijvende politieke aandacht voor financiële kwesties te organiseren kan gedacht worden aan een jaarlijks debat in de Tweede Kamer over de 'staat van het financiële systeem' en maatschappelijke financiële weerbaarheid. Dit zou een goede manier kunnen zijn om ook in tijden waarin financiële kwesties minder urgent lijken, toch politieke betrokkenheid te organiseren.

Benut ruimte voor een nationale koers

Omdat de kern van de economische bijdrage van de financiële sector schuilt in het ondersteunen van de economie en de samenleving, dienen juist bij het financieel beleid de publieke belangen centraal te staan. Veel van dit beleid komt op bovennationaal niveau tot stand, wat de opdracht ingewikkelder maakt. Gegeven de verschillen tussen landen wat de rol en aard van de financiële sector betreft, betekent dit dat er bij de implementatie van internationale regels enige invloed uitgaat van de (lokale) context waarin ze moeten worden toegepast. Er is dus enige nationale speelruimte. Uiteraard moet hierbij centraal staan dat gestuurd wordt vanuit de publieke belangen en niet de sectorale belangen.
Ook voor de internationale agenda van Nederlandse beleidsmakers is een actieve Nederlandse rol nodig. Grote onzekerheden omtrent het internationale financiële bestel maken het van belang dat Nederland een vinger aan de pols heeft. Bijzondere aandacht moet hierbij besteed worden aan de openheid en pluriformiteit van internationale beleidsfora. Vooral op Europees niveau is het beleid sterk verkokerd. Het wordt in tal van verschillende fora ontwikkeld, waardoor het voor iedereen behalve de spelers met de meeste resources welhaast onmogelijk is om invloed uit te oefenen op de algemene beleidsrichting.
De wrr waarschuwt ervoor niet toe te geven aan de verleiding om na zeven jaar financiële hervormingen te concluderen dat we de belangrijkste problemen wel hebben opgelost en we kunnen overgaan tot de orde van de dag. Niet alleen is financiële instabiliteit een blijvend probleem, ook is nog steeds sprake van een financiële dominantie in de samenleving en een daarmee samenhangende kortzichtigheid. De sector en de samenleving staan in een gespannen relatie met elkaar.
Om dit tegen te gaan is ambitieus beleid gericht op zowel de sector als de samenleving nodig. Juist als op beide terreinen stappen worden gezet, kan de financiële dienstverlening een veel productievere rol spelen.

Title: Observations on the Encyclical Letter Laudato Si' of Pope Francis
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From: -
Date: October, 2016

The important encyclical letter Laudato Si' (LS) of Pope Francis (May 2015) focuses primarily on "care for our common home", referring to the environment, earth and nature. The content of the encyclical, however, goes much further and deeper. It analyses mankind and his behaviour, not only in relation to nature but also in relation to society: the economic and social activities and the prevailing financial and economic systems.

The LS presents several more general viewpoints of fundamental importance, which go beyond the environment and nature in the strict sense. More specifically, inter alia, I refer to the following passages:

- (Para. 48) "The deterioration of the environment and of society affects the most vulnerable people on the planet." The most vulnerable meaning: "the poorest". The impact on the environment and on society at large are linked.

- (Para. 66) "Human life is grounded in three fundamental and closely intertwined relationships: with God, with our neighbour and with the earth itself." (Genesis)

- (Para. 92) "Peace, justice and the preservation of creation are three absolutely interconnected themes…"

- (Para. 116). Man is referred to as the "master over the world" but this "dominion over the universe should be understood more properly in the sense of responsible stewardship". Cardinal Peter Turkson has observed – in a discussion in The Netherlands on August 30, 2016 – that in addition to the need of stewardship, the need for "care" - in the widest sense of the word – is at least equally important in the LS.

In my view, both are of essential importance: stewardship and care partly overlap, but they also cover areas and actions that are largely separate. Whereas stewardship represents in particular the element of our responsibility vis-à-vis future generations, care focuses specifically on our responsibility vis-à-vis our neighbours: the present generation.

- (Para. 126). "Combining prayer and spiritual reading with manual labour… makes us more protective and respectful of the environment". So: ora et labora (pray and work).

One of the strongest elements of the LS are the (cross) linkages between various important aspects of our society and our behaviour. Para. 138 emphasizes that "everything is interconnected" and para. 122 states that "different attitudes can feed on one another, leading to environmental degradation and social decay". In other words: the link between the ecological crisis, the social crisis (especially: poverty) and the moral crisis in our society today.

Solutions and actions to address the problems

Para. 139 considers it "essential to seek comprehensive solutions". It continues: "We are faced not with two separate crises, one environmental and the other social, but rather with one complex crisis which is both social and environmental. Strategies for a solution demand an integrated approach to combating poverty, restoring dignity to the excluded and at the same time protecting nature". So, the call from the

LS goes beyond mere action in the areas of the environment and nature – and is therefore more demanding.

Para. 175 makes the same point but expressed in a different way: we need "to deal with both problems: the reduction of pollution and the development of poorer countries and regions".

Chapter 5 ("Lines of approach and action") provides some guidelines for the solutions and for our actions. Para. 164 emphasizes the importance that "solutions are proposed from a global perspective and not simply to defend the interests of a few countries. Interdependence obliges us to think of one world with a common plan". And para. 169 criticizes "countries which place their national interests above the global common good". I find completely justifiable this negative judgement of politicians who take a purely nationalistic position. Para. 175 goes much further and states that "it is essential to devise stronger and more efficiently organised international institutions, with functionaries who are appointed fairly by agreement among national governments, and empowered to impose sanctions". In my view, this reflects rather unrealistic and wishful thinking: impartial international decision-makers and altruistic political agreements are akin to political miracles.

As regards the responsibilities towards the environment and nature, the LS is frequently very critical of the behaviour of three essential actors: 1) governments and the world of politics, 2) private-sector companies and markets and 3) individual men and women as consumers.

Para. 54 sounds negative and pessimistic about the role of politics: "It is remarkable how weak international political responses have been", and speaks of "the failure of global summits on the environment". This statement is regrettably correct about these conferences until quite recently when the Paris summit of late 2015 achieved substantial progress on important environmental matters. As I understood from several participants and observers, the publication of the LS had a positive and substantive impact on "Paris", in part because Catholics and environmental circles drew the attention of participants and governments to the LS in the months preceding the summit and in part because leading Catholics referred to the LS in the course of the summit's proceedings. Cardinal Peter Turkson, President of the Pontifical Council Justitia et Pax who was closely involved in the preparation of the LS, played an important role in these activities. I was delighted to learn about the Cardinal's substantive contribution and that of Justitia et Pax. I refer also to the speech "Current challenges for the Christian Social Movement in the light of the Encyclical Letter Laudato Si' of Pope Francis" by Cardinal Turkson at the opening session of the Christian Social Congress (CSC) held in Doorn, The Netherlands on 31 August 2016. I admit to a certain bias due to my membership of J. et P. (2002-2013), but I believe that its action shows that even in today's complex world the Catholic church can help to resolve important global problems.

In light of the disappointing experiences following previous global environmental conferences, I have come to the conclusion that successful implementation of the conclusions of these political gatherings requires a combination of the following elements:

1. Binding agreements;

2. Clarity and transparency of the contents of these agreements, as well as periodic reporting and publicity on their (non) implementation;

3. Adequate political controls of this implementation by independent experts; and

4. Sanctions against countries and institutions that fail to honour their part of the agreements and commitments.

All four of these elements must be present to make real progress. See also paras. 142, 167 and 214 of the LS.

In my view, however, what is missing in the LS are more concrete and specific indications of measures that should be taken in the near future. It is not necessary for the Church to specify in an encyclical letter the precise measures needed to solve the problems. Paras. 61 and 188 indicate that "on many concrete questions, the Church has no reason to offer a definitive opinion", and para. 60 recognizes "that different approaches and lines of thought have emerged regarding … possible solutions", and describes two extreme approaches and scenarios. It concludes: "This makes a variety of proposals possible". I find all this rather vague, however.

Paras. 216-221 speak frequently of the need for an "ecological conversion" and provide a number of useful and practical guidelines to make our daily lives environmentally-friendly.

According to para. 179: "Because the enforcement of laws is at times inadequate due to corruption, public pressure has to be exerted in order to bring about decisive political action" and: "Society, through non-governmental organisations (NGOs) and intermediate groups, must put pressure on Governments….". I support this attention to the role that NGOs can play in this regard, but it should be ensured that all non-governmental organisations are encouraged to contribute. This would include political parties, religious organisations, academia and independent think-tanks. They are of major importance as well.

I would note that other commentators also struggle with the question of how we should define and understand the "ecological virtues", as advocated by Pope Francis. The LS apparently has to cope with internal tensions between various laudable, but competing goals, which cannot easily all be attained simultaneously.

The LS rightly advocates the desirability – even the necessity – that a heavier weight is attached to moral aspects of human behaviour: both for governments and politicians, for companies and institutions and for individuals, particularly as consumers (para. 206: "purchasing is always a moral – and not simply economic – act"). Para. 105 claims: "We have certain superficial mechanisms, but we cannot claim to have a sound ethics, a culture and spirituality genuinely capable of setting limits and teaching clear-minded self-restraint" and para. 162 speaks of "an ethical and cultural decline which has accompanied the deterioration of the environment". It signals in particular "the risk of rampant individualism" and "today's self-centred culture of instant gratification". Para. 181 goes further by stating "even the best mechanisms can break down when there are no worthy goals and values, or a genuine and profound humanism...". I find this reference to humanism somewhat puzzling. Nothing is wrong with humanism as a guideline. But in an encyclical letter I would expect less emphasis on the concept, at least in the meaning assigned to it by many from non-Christian backgrounds, namely reason and enlightenment.

Finally, para. 189 wants "to develop a new economy, more attentive to ethical principles…". I conclude that it will be the task for all of us to translate this very general call from the LS in a way that directly impacts our day-to-day lives and of those around us.

Financial and economic aspects

The LS devotes considerable attention to general economic and financial aspects which, directly or indirectly, exercise a strong influence on the environment and nature. It is true that these influences play an important role. We should indeed not disconnect environmental developments from economic and financial interests that may negatively impact the environment.

However, I want to put a question mark behind the approach followed by the LS in this area. The encyclical apparently wants to highlight this link between the environment and general economic and financial developments and provides an intensive general analysis of our economic system, with a focus on capitalism and (financial) markets. Such analysis is not new: papal encyclicals follow a long and good tradition in this respect, beginning with Rerum Novarum (1891) via Quadragesimo Anno, Mater et Magistra, Pacem in Terris, Populorum Progressio, Laborem Exercens, Sollicitudo Rei Socialis, Centesimus Annus, Caritas in Veritate and Evangelii Gaudium to the LS.

Although the LS, frequently and rightly, refers to the encyclical letter Centesimus Annus (CA), published by Pope John Paul II in 1991, and although Caritas in Veritate (2009) of Pope Benedict XVI and the apostolic exhortation Evangelii Gaudium (2013) of Pope Francis take the same positions on important matters as the CA did, in my opinion one should make a distinction between the CA and the encyclicals of his two successors. This can probably be explained in part by the divergent views held by the successive Popes (and their advisers!). But I consider it likely that the changed general economic and financial situation has played an important role as well: from the euphoria following the "victory" of the capitalistic market economy of the Western world over the collapsed communism to the frustrations engendered by the ongoing global problems that emerged in the wake of the financial and economic crisis since 2008. The LS appears to be closer to the latter two encyclicals than to the CA. Although the text of LS does not recognize this, the continuity in the pontifical viewpoints – as proclaimed by the LS – is subject to limitations.

My reservations are not caused by the heavy criticism in LS of certain aspects of the prevailing economic system described as capitalistic and market-based, in all their national varieties. Much of this criticism is justified. My point is that LS presents a one-sided description of this prevailing system. It points to rather extreme manifestations of this system as typical of today's situation, although they no longer represent reality. I mention several examples below.

Para. 106 speaks of "the idea of infinite or unlimited growth, which proves so attractive to economists, financiers and experts in technology. It is based on the lie that there is an infinite supply of the earth's goods." It also refers to "the false notion that an infinite quantity of energy and resources are available, that it is possible to renew them quickly…". This description may have correctly characterised attitudes one or more decades ago, but it is not widely encountered today.

A similar observation can be made with respect to para. 109: "The economy accepts every advance in technology with a view to profit, without concern for its potentially negative impact on human beings".…"The lessons of the global financial crisis have not been assimilated"… and: "that the problems of global hunger and poverty will be resolved simply by market growth". It continues: "Their behaviour shows that for them maximizing profits is enough". Lamentably, these quotes contain elements of truth indeed. In my view, however, many individuals engaged in business and financial markets have realized in recent years that major mistakes have been made and have drawn constructive lessons from these mistakes. Current corporate behaviour has moved in the right direction, although I acknowledge that more still should be done.

Unfortunately, LS shows hardly any recognition or praise for these positive developments and creates the impression that the earlier laissez-faire mentality still prevails in these markets. In fact, those attitudes are gone in many areas of the world and active governmental interference has created many "checks and balances" to reduce the freedom of market forces. I fear that those who are working hard to bring about these positive changes will be de-motivated by this persistent criticism.

The LS correctly states that "the market" as such offers no guarantee for proper behaviour. Adam Smith noted this long ago. I want to stress that, on the one hand, economic growth supported by market forces as such indeed does not always produce optimal solutions for the environment and poverty, but on the other hand, economic growth, supported by the process of globalisation, in reality contributes to the reduction of poverty. Economic growth is indeed not sufficient on its own, but it is a necessary condition.

An important question of principle is whether critics focus on the economic and financial systems and markets as such or on the individual people who are influential actors in those systems and markets. I would prefer not to direct the arrows of wrath mainly towards those economic structures and markets in abstracto. They are fundamentally amoral (i.e. not moral or immoral). Our critical attention should also focus on individual participants and their activities and decisions (or lack thereof) in the framework of systems and markets. The moral or immoral side of the story can be found there and one should challenge them on their shortcomings.

The LS rightly rejects (para. 190) the notion that "problems can be solved simply by an increase in the profits of companies or individuals". And: "The environment is one of those goods that cannot be adequately safeguarded or promoted by market forces". I want to add, however, that this reasoning cannot be reversed by asserting that if only one could eliminate market mechanisms and profit-seeking behaviour, the serious problems could be solved rather easily. What counts is the way in which those markets exercise their activities and invest their profits: good or bad.

The encyclical is outspoken on one more practical issue. In para. 171 the judgement is very negative about the current "strategy of buying and selling carbon credits". I share the criticism of the practice of making large quantities of emissions certificates available at an excessively low price. With a proper pricing policy, however, this market mechanism can play a proper and useful role, also in the interest of the environment.

The difference between the short-term and long-term impact of policy measures is of significant importance for responsible environmental policies. Measures by governments or companies that in the long-run are beneficial for the environment and alleviate poverty could in the short-run lead to economic effects that discourage the proper approach. LS (para. 178) rightly makes this point.

In para. 123, the LS criticizes the "culture of relativism" including the mind-set of those who say: "Let us allow the invisible forces of the market to regulate the economy, and consider their impact on society and nature as collateral damage". This is right but here again one should realize that the invisible hand and laissez-faire principles of the market, as advocated by Adam Smith, have lost already their power due to heavy government regulation and interference, which sometimes lead to a better outcome, but sometimes not.

In general: I am not convinced by the main thrust of LS that the blame for the admittedly very serious issues of environmental degradation and poverty should be primarily placed on the capitalist economic system and the market economy, at least not in their present-day functioning.

The LS characterised the impact of globalisation in very critical, even negative terms (paras. 51 and 106). It is true that the trend in recent decades towards globalisation poses dangers and risks, particularly if one includes the demographic side of globalisation with flows of refugees and economic migrants. Paras. 25 and 48 point to the tragic consequences of climate change for increasing poverty and migration, leading in turn to conflicts and even war. These sad developments demand action and measures indeed.

What is missing in LS, however, is proper attention to one of the important positive results of globalisation, namely that it has enabled an enormous decline worldwide in extreme poverty (subsisting on less than $2 a day) for hundreds of millions of the very poorest in large and poor countries such as China, India, Indonesia, Vietnam and others. Globalisation has made it possible for them to raise their appallingly low incomes by substantial increases of local production of goods to be exported to rich industrial countries. Although admittedly globalisation also has resulted in rising income inequality within these rich Western countries, the global inequality between (very) poor and rich countries has fortunately significantly diminished. This latter effect in my view is more beneficial and important.

I am somewhat puzzled that LS – the encyclical letter on environment and earth – makes extensive and far-reaching comments on specific economic and financial issues related to the financial crisis of 2008. Para. 189 is very outspoken: "Saving banks at any cost, making the public pay the price, foregoing a firm commitment to reviewing and reforming the entire system, only reaffirms the absolute power of a financial system, a power which has no future….". This presents a one-sided and inaccurate picture of recent developments and makes use of language that is reminiscent of Marxist literature. The fact is that substantial progress has been achieved in recent years in reforming the banking system. For example, support is no longer provided almost automatically to a bank in difficulty, as previously, at the expense of national treasuries, taxpayers and, therefore, the general population, but rather at the expense of the private investors involved in that bank ("bail-in" instead of "bail-out"). I agree, however, that there is room for further measures of reform.

By way of illustration I note that the very serious and persistent financial and economic problems in Argentina today are caused by the failed policies adopted during the many years of corruption, military regimes, protectionism and incompetent political leaders. But they are not caused by the failings that triggered the financial and banking crisis. Argentina based its policies precisely not on principles of capitalism, globalisation and open markets!

LS is right (para. 195) that "businesses profit by calculating and paying only a fraction of the costs involved". This refers to the environmental damage caused by desertification, pollution, flooding, etc. I agree that the condition for production should be that it is based on a comprehensive, integral calculation of all cost factors incurred, rather than merely a marginal or partial cost calculation. This requirement should apply to companies as well as to governments.

Governments, companies and consumers

In some passages of the LS, the shortcomings of governments and politicians are sharply criticised, whereas in others, it is primarily companies and markets participants that are sternly called upon to change their behaviour. The overall approach of the LS shows an acceptable balance in its analysis of the relevant environmental actors. It would have been unfair indeed if the encyclical had singled out one of these two categories as the main culprit. Also the LS correctly included the third component of the primary originators of the environmental crisis: human beings as consumers ("impulsive and wasteful" according to para. 162) and as polluters, in their interaction with nature.

Chapter 6 of LS deals with ecological education and the need for a "new lifestyle". In para. 203 the extreme and compulsive "consumerism" is strongly rejected: "the market tends to promote extreme consumerism in an effort to sell its products..." According to the LS, only a "supposed freedom to consume" exists. "But those really free are the minority who wield economic and financial power". This is a serious issue indeed. In my opinion, however, the consumer should and does bear individual responsibility for all decisions related to his/her consumption. Also, consumers can collectively, in large numbers, create a countervailing power in the market against large companies or monopolies; they can change their lifestyle by changing their buying habits. Para. 206 rightly refers to pressure (by e.g. purchasing cooperatives): "This is what consumer movements accomplish by boycotting certain products". Also, para. 210 advocates active environmental education, including "a critique of the myths of modernity", such as individualism, consumerism and the unregulated market. Education and training, not only by governments and schools but also by the media and by parents at home, can make a substantial contribution towards improving such attitudes.

Concluding remarks

The Laudato Si is rightly called the encyclical letter on the new social question of today: the new Rerum Novarum. It aims to provide a moral compass to all of us: governments, companies, academia and consumers, about the environment and related other important subjects, particularly poverty. And poverty itself is connected with economic growth, globalisation and inequality. Unfortunately, the reader of the encyclical is not given many concrete suggestions for solutions. More analysis and dialogue are needed.

In earlier periods of Christian social teaching, the problems of the environment played a more modest role. But this has now changed.

With strong arguments and in a balanced way, the LS direct a steady flow of criticism at the (non) behaviour of three major actors who bear responsibility for protecting the environment: 1) governments and politicians, 2) companies and 3) individual citizens as consumers. At the same time the LS accuses both the capitalist system and the market economy as being the major culprits. In general, the treatise presents a one-sided, and at times excessively negative picture of the current situation, partly because it devotes insufficient attention to progress already achieved, partly because it refers to an economic model based on principles of laissez-faire that have largely been discarded and finally because its assessment of the ongoing process of globalisation is too critical.

The Hague, The Netherlands, October 2016

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Title: Dishonest Bankers threaten new Financial Crisis, says Bank of England Governor Mark Carney
Author: Ben Chu
From: The Independent
Date: August 31, 2016

'The incidence of financial sector misconduct has risen to a level that has the potential to create systemic risks by undermining trust in both financial institutions and markets,' Mr Carney has told the G20. Corrupt bankers represent a threat not only to those they directly rip off but also potentially the entire global financial system, the Governor of the Bank of England has warned.

In his capacity as chair of the Financial Stability Board (FSB) – a global forum for national regulators, financial ministries and central banks – Mr Carney has written an open letter to the G20, which meets in China this weekend. "The incidence of financial sector misconduct has risen to a level that has the potential to create systemic risks by undermining trust in both financial institutions and markets," he says.

In recent years major banks around the world have been forced to pay billions of dollars in regulatory fines and compensation for a wide range of offences from rigging interest rates and mis-selling financial products to households, to ripping off corporate clients.

The Governor's message conflicts with the view of the new CBI head, Carolyn Fairbairn, who this week said it was time for banks to be removed from "the naughty step" by regulators in the wake of the Brexit vote and that "this is a time for real confidence in what we're good at".

Mr Carney said the FSB was pursuing a "major work programme" of reform on addressing banker misconduct. This will study financial institutions' governance frameworks for addressing misconduct, examine whether banks' compensation structures are discouraging misbehaviour and look at whether more needs to be done to clean up the bond, foreign exchange and commodity markets. Mr Carney said the FSB would release a new report and recommendations for action in the first half of next year.

Research by New City Agenda, a financial services think-tank, earlier this year found that Britain's banks and building societies had incurred £33bn in misconduct costs between 2010 and 2014 – roughly equal to the sum they paid out in dividends to shareholders over the same period. The Bank of England estimated last year that misconduct costs had reduced banks' pre-tax profits by 40 per cent on average between 2011 and 2015.

Globally, banks have been forced to pay more than $6bn (£4.6bn) in regulatory fines for rigging Libor rates and $5bn for foreign exchange market manipulation. Earlier this month Barclays agreed to pay an extra $100m fine to 44 US states to settle an investigation into interest-rate rigging between 2005 and 2009. Further settlements between the American authorities and other global banks are expected. But despite the huge fines, relatively few bankers around the world have been sent to jail for misconduct. In July a judge at Southwark Crown Court jailed four former Barclays bankers for conspiring to rig Libor. And the former UBS and Citigroup trader Tom Hayes is serving an 11-year sentence for conspiring to manipulate interest rates.

Speaking at the Bank of England's Open Forum event last year Mr Carney said markets lose their social acceptability “if they're viewed as not having integrity. If there's a series of scandals, there's a perception of ethical drift”.

Title: Bank zit niet meer te wachten op klassieke verkooptijger
Authors: Wouter Keuning & Maarten van Poll
From: Het Financieele Dagblad
Date: October 18, 2016

De Amerikaan John Stumpf is waarschijnlijk de meest gehate bankier ter wereld. Die twijfelachtige eer dankt hij aan het schandaal bij zijn bank, het Amerikaanse Wells Fargo. Onder druk van onrealistisch hoge verkoopdoelstellingen activeerden medewerkers daar afgelopen jaren in het geniep bankproducten op naam van klanten. 'Eight is great' — acht producten per klant — zo luidde het credo bij Wells Fargo. De consumentenbank die relatief ongeschonden uit de financiële crisis kwam, is inmiddels de nieuwe kop-van-jut van de internationale financiële sector. Stumpf stapte vorige week woensdag op naar aanleiding van het schandaal.

Nederlandse banken is er veel aan gelegen om een dergelijk scenario te voorkomen. Daarom nemen ze steeds nadrukkelijker afstand van pure verkoopdoelstellingen. Zo kondigde topman van SNS Bank Maurice Oostendorp onlangs in het FD aan helemaal te stoppen met verkoopstellingen. Want, zei Oostendorp: 'Denken vanuit de klant gaat niet samen met verkoopdoelstellingen.' HR-directeur Willemijn Maas van de bank benadrukt desgevraagd dat de veranderingen niet van de een op de andere dag, volledig zijn doorgevoerd. 'Het is een proces.'

Uit een rondgang langs ING, Rabobank, ABN Amro, SNS Bank, bonden en adviseurs blijkt dat de stap van SNS Bank past in een bredere trend. De sector werkt, grotendeels in stilte, al jaren met andere instrumenten en drijfveren ter vervanging van de klassieke verkoopdoelstellingen. Het moet van toezichthouder Autoriteit Financiële Markten (AFM), die sinds 2011 eist dat in prestatiemetingen bij banken klantbelang centraal staat.

Tegelijkertijd merken banken dat het de motivatie van de medewerkers ten goede komt. Maar de sector doet het vooral omdat het besef lijkt doorgedrongen dat oprechte aandacht voor de klant op lange termijn betere resultaten oplevert. 'De klassieke verkooptijger heeft bij een consumentenbank weinig meer te zoeken', vat onderhandelaar Jolien Dekker van vakbond CNV de trend samen.

ABN Amro, Rabobank en ING kiezen voor een voorzichtiger benadering dan SNS Bank. Zij geven aan te werken met een 'mandje' van indicatoren, waarbij financiële resultaten voor maximaal de helft mogen meewegen. De andere helft is gereserveerd voor zaken als klantbelang en klanttevredenheid. De meest genoemde indicator daarvoor is de Net Promoter Score. De door Wells Fargo berucht geworden 'cross- en upselling', het meeverkopen van extra producten als doel op zich, is volgens banken, bonden en consultants in Nederland sectorbreed in de ban gedaan. 'Er is nog een weg te gaan, maar de bank begrijpt inmiddels dat de klant zijn brood is', aldus Maarten Kolkman, manager particulieren en private banking bij Rabobank.

Verkoper wordt relatiemanager

In een gesprek met het FD, op de ING Investor Day twee weken geleden, zei topman Ralph Hamers dat bij zijn bank zelfs het woord cross-selling in de ban is gedaan. 'Wij spreken alleen nog van cross-buy. Wij hebben geen actieve benadering naar onze klanten. De klant beslist. En wij moeten zó inzichtelijk te werk gaan, de klant zó goed adviseren en zó goed online van dienst zijn dat die beslissing in ons voordeel uitvalt en de klant blijft terugkomen.'

De opmars van NPS in de bankensector is tekenend voor een culturele en economische omslag. Stuk voor stuk stellen de banken er heilig van overtuigd te zijn dat een tevreden klant uit eigen beweging meer producten zal afnemen, en dus meer zal opleveren. De platte verkoper van vroeger is langzamerhand veranderd in een relatiemanager, die zijn klant zo goed mogelijk moet leren kennen en begrijpen.

Digitalisering speelt daarbij een belangrijke rol. Nu er minder fysiek klantcontact is, worden digitale klantgegevens in toenemende mate ingezet om de klant van dienst te zijn. ‘Op het juiste moment de klant proactief benaderen met de meest relevante aanbieding, dat is de nieuwe manier om klanten voor je te winnen’, zegt Hoyte Duyster van consultancyfirma AT Kearney. ‘Banken realiseren zich goed dat het financiële product slechts een deel is van de klantbehoefte. De concurrentiestrijd, ook met nieuwe fintechbedrijven, gaat over de relatie met de klant.’ Raymond Welmers van het hr- en beloningsadviesbedrijf Focus Orange vult aan: ‘De nadruk is komen te liggen op advies. En adviseurs hebben nu eenmaal andere doelstellingen dan verkopers. Het gaat hen niet om de omzet, maar om de relatie en de kwaliteit van de omzet.’

Andere signatuur

Verkoop van een product en de klanttevredenheid zijn door digitalisering en veranderend klantgedrag steeds moeilijker toe te schrijven aan één specifieke medewerker. Bij beoordelingen en beloning wordt de rol van medewerkers in het verwezenlijken van teamdoelstellingen daarom steeds belangrijker. Volgens John Smolenaers van Deloitte, trekt dat medewerkers van een andere signatuur dan voorheen. 'De NPS van die medewerkers correleert sterk met de NPS van de klant’, zegt Mathijs Robbens van adviesbedrijf Bain & Company. ‘Met een ongeïnspireerd team is het lastig om loyale klanten te krijgen en te behouden. Mensen willen op hun werk een zinvol doel nastreven. Om talent aan te trekken en te behouden is een financiële bonus vaak onvoldoende.’

De Net Promoter Score (NPS)

Rabobank, ING, ABN Amro en SNS, alle vier de Nederlandse banken maken inmiddels gebruik van de Net Promoter Score (NPS), om in kaart te brengen hoe tevreden hun klanten zijn over hun dienstverlening. Het achterliggende idee: tevreden klanten komen terug, ze zullen meer producten bij je afnemen en ze zullen eerder geneigd zijn hun bank aan te bevelen bij anderen.

De Net Promoter Score werd in 2003 ontwikkeld door consultants van Bain & Company. Een groot deel van het succes van de NPS, die in veel andere bedrijfstakken al langere tijd wordt gebruikt, is te danken aan de eenvoud. In enquêtes wordt klanten gevraagd in welke mate zij een bepaald bedrijf, product of dienst aan anderen zouden aanbevelen. Zij kunnen die vraag ‘scoren’ met een cijfer van 0 tot 10. De groep respondenten die het cijfer 0 tot 6 geeft, wordt als critici bestempeld. De groep die een 9 of 10 geeft wordt gekwalificeerd als ‘promoter’ en de rest (scores 7 en 8) als ‘passief neutraal. Door het percentage promotors te verminderen met het percentage critici ontstaat de NPS. Blijkt uit het onderzoek bijvoorbeeld dat 30% van de respondenten promoters zijn en 20% critici, dan bedraagt de NPS +10.

Dat vraagt volgens Mattijs van Eck van Korn Ferry Hay Group ook om specifieke vaardigheden bij het management. ‘Het gesprek met de medewerker gaat niet meer over KPI’s (prestatiedoelen, red.), maar over gedrag,’ aldus Van Eck. Een consultant die anoniem wil blijven voegt daaraan toe: ‘Als je niet meer stuurt op omzet, maar op toegevoegde waarde van een werknemer, moet je je als manager veel meer dan vroeger verdiepen in hun werkzaamheden.’ Ook managers zullen mee moeten, of plaats moeten maken.

Zaligmakend is de NPS overigens bepaald niet. Belangrijkste bezwaar, ook meermaals geuit door toezichthouder AFM, is dat klanttevredenheid weinig zegt over klantbelang. Kort door de bocht: consumenten met bijvoorbeeld een woekerpolis, waren op het moment dat ze die polis afsloten naar alle waarschijnlijkheid zeer tevreden klanten, net als DSB-klanten voordat de bank failliet ging.

Een ander bezwaar luidt dat de ene NPS de andere niet is. Bedrijven bepalen zelf op welk moment ze klanten ondervragen en hoeveel er ondervraagd worden. Vergelijken van NPS-scores is daarom ondoenlijk. Dat gebrek aan standaardisatie maakt controle door accountants ook lastig. Nog een punt van kritiek luidt dat met NPS slechts een mening wordt gemeten en geen gedrag.

Vakbonden

Ondanks die kritiek signaleren betrokkenen een structurele verandering bij de banken, waar werknemers meer ruimte krijgen om te handelen in het belang van de klant. ‘Het belangrijkste is dat er op basis van de nieuwe indicatoren een goed gesprek gevoerd wordt met de werknemer over gedrag en prestaties’, zegt Erwin Rog van vakbond De Unie. Hoewel de toezichthouder AFM vaststelt dat het veranderingsproces ‘taai’ is voor de banken, lijkt de cultuuromslag op het vlak van prestatiebeloningen in de Nederlandse bancaire sector fundamenteel. Volgens Janet Visbeen van PwC kúnnen banken ook niet meer anders: ‘De maatschappij en regelgeving geven druk. Maar de markt drukt het hardst.’

Title: Krediet-junkies
Author: Dirk Bezemer
From: De Groene Amsterdammer
Date: June 15, 2016

Soms is politiek net fantasy. Kent u die quote uit Lord of the Rings? ‘Some things that should not have been forgotten were lost. History became legend. Legend became myth. And for two and a half thousand years, the ring passed out of all knowledge.’
Wat ze in Midden-Aarde enkele millennia kost, doet onze overheid in een paar jaar. In de koortsachtige atmosfeer van Den Haag voelt ‘de’ crisis blijkbaar als prehistorie, en de lessen uit de crisis als vage mythen. Althans, die gedachte drong zich op toen ik het plan las dat de Nederlandse overheid in januari publiceerde bij de start van haar EU-voorzitterschap.

Hierin staat dat een van onze doelen het ontwikkelen van een kapitaalmarktunie is. Dat voornemen is al ouder, maar de Nederlandse voorzitter pusht dit actief. Waarom? De kapitaalmarktunie gaat over schaduwbanken: geldverstrekkers die geen officiële banklicentie hebben maar wel leningen verstrekken. Denk aan Nederlandse ‘special purpose vehicles’, bijna-banken opgezet door echte banken. ‘SPVs’ halen geld op in de internationale markten en zo kunnen banken (via hun SPV’s) u nóg meer hypotheken verkopen. Meer dan een derde van alle Nederlandse hypotheekleningen aan huishoudens komt van SPV’s.

Tot nu toe zijn er allerlei regels en verschillen tussen EU-landen die deze constructie bemoeilijken. Daarvoor is de kapitaalmarktunie bedacht. Schep een wettelijk kader voor wat nu nog schimmig is. Harmoniseer de regels. Zoals handel meer en makkelijker wordt als alle landen dezelfde producteisen stellen, zo kan kapitaal vrijer stromen en sneller groeien binnen zo’n ééngemaakte kapitaalmarkt. En daar functioneren banken beter van, is de gedachte.

Ik zou werkelijk niet weten hoe het een uit het ander volgt, en hoe deze gedachte te rijmen is met wat we weten over kapitaalstromen. Vrijelijk stromend kapitaal bracht ons de euro-boom en vervolgens de eurocrisis. Onderzoek laat zien dat vrije kapitaalstromen telkens weer leiden tot overmatige binnenlandse kredietgroei, en dus schuldgroei gevolgd door crisis. Alleen met selectieve amnesia kunnen we het idee achter de kapitaalmarktunie blijmoedig accepteren.

Nederland zit hier diep in, niet alleen als voorzitter maar ook als financiële grootmacht. Nederlandse banken kunnen al lang niet meer hun leningen financieren met uw spaargeld. Sinds begin jaren negentig – niet toevallig ook de start van de hypotheekexplosie – lenen ze geld op de internationale kapitaalmarkten, vaak via SPV’s. Dit gat tussen onze bankdeposito’s en onze leningen is continu groter geworden, en het is een van onze financiële kwetsbaarheden. Wat als lenen op de internationale kapitaalmarkten duurder wordt? Wat als die markten bevriezen? Nederlandse banken zouden via hun SPV’s ogenblikkelijk in grote problemen verkeren.

Het werkt niet, dus moeten we er meer van hebben. Ik volg het niet.

De kapitaal-marktunie maakt toegang tot de markten gelukkig gemakkelijker – maar daarmee ook onze kwetsbaarheid en afhankelijkheid. Het is het bekende dilemma van iedere verslaving: meer ervan nu is fijn, minder is op den duur nodig maar geeft ernstig afkick--ongemak. Het liefst schuift de verslaafde dat dus op de lange baan. De overheid kan helpen door gedoogbeleid, uiteraard met de beste bedoelingen.

In het Nederlandse plan lees ik dat de kapitaalmarktunie ‘bedoeld is om een stimulans te geven aan Europese kapitaalmarkten zodat zij effectiever gaan functioneren ten behoeve van de reële economie’. Een zin die nadere beschouwing verdient. Allereerst die goede bedoeling, waarop achteraf altijd gewezen kan worden. Daarna wordt verhuld toch toegegeven dat die bedoeling misschien uit de lucht gegrepen is, omdat Europese kapitaalmarkten tot nu toe blijkbaar níet erg effectief functioneren ten behoeve van de reële economie. Het werkt niet, dus moeten we er meer van hebben. Ik volg het niet. De logica is misschien beter te ontdekken in een ander licht. Opnieuw zien we de Nederlandse overheid beleid pushen dat de banken toevallig heel goed uitkomt – gedoogbeleid voor kredietjunkies.

Want wat gaat een succesvolle kapitaalmarktunie ons brengen? Banken die nu vooral hypotheken en nauwelijks bedrijven financieren, krijgen makkelijker geld om dat te doen. Het MKB zal er niets aan hebben, verwacht ik. Wel zal de beginnende bubbel op de vastgoedmarkt crescendo gaan. Je kunt dat natuurlijk de reële economie noemen, inclusief zielige verhalen over starters die geholpen moeten worden, maar dat is zó 2006.

John Kenneth Galbraith schreef dat de volgende crisis begint zo gauw de laatste persoon die de vorige crisis meegemaakt heeft overleden is. Dat duurt ons blijkbaar te lang. Sommige dingen die we niet zouden moeten vergeten, zijn we nu al weer kwijt.

Title: AFM maakt de financiele wereld ziek, niet gezond
Author: Redactie Fondsnieuws
From: Fondsnieuws
Date: July 22, 2016

In de financiële wereld is sprake van toenemende bezorgdheid, frustratie en vermoeidheid. Aanleiding is een combinatie van wet- en regelgeving, reorganisaties en marktomstandigheden die als 'science fiction' worden betiteld.

Die conclusie trekt de redactie van Fondsnieuws op basis van de dagelijkse contacten en achtergrondgesprekken die zij heeft met vertegenwoordigers van asset managers, banken, pensioenfondsen en pensioenbeleggers.

'Het is niet leuk meer. Aan de ene kant heb je de toezichthouder die je je werk onmogelijk maakt, en aan de andere kant heb je centrale banken als de ECB die door hun beleid het beleggen met langjarige verplichtingen hoogst onvoorspelbaar en gevaarlijk hebben gemaakt,' zegt een pensioenbelegger.

Deze bron is geen 'lone wolf' - integendeel, ook bij banken en asset managers vallen vergelijkbare signalen op te tekenen.

Klant verdwijnt in de mist
Een bankier zegt dat er geen dag voorbij gaat dat hij zich met wet- en regelgeving moet bezighouden. 'Ze zeggen wel: de klant staat centraal, maar de klant verdwijnt steeds meer achter een mist van regels, die er vooral op gericht lijken te zijn om het bestaansrecht van de AFM te onderstrepen.' Hij vertelt dat hij in zijn werk steeds minder toe komt aan de klant, laat staan dat hij tijd heeft om de markten te volgen. 'Als ik dat wil, moet ik dat dagelijks echt in mijn agenda blokken.'

Columnist Marcel Tak komt in een column tot dezelfde conclusie. Hij wijst erop dat het wensenlijstje van de AFM - de zogenoemde wetgevingsbrief 2016 aan minister Dijsselbloem - jaarlijks groter wordt. 'Bevatte de brief van 2014 zes pagina, die van 2015 zeven. Dit jaar heeft de toezichthouder twaalf pagina's nodig om zijn ideeën over nieuwe wetgeving kenbaar te maken,' schrijft Tak.

Meer zelfreflectie bij de AFM
Asset managers zeggen dat de relatie met de AFM beter is geworden, sinds Merel van Vroonhoven er de scepter zwaait en de als 'conflictueus' bestempelde Theodor Kockelkoren er niet meer werkzaam is. Zo worden asset managers regelmatig uitgenodigd, ondermeer voor klankbordgroepen en presentaties aan medewerkers van de toezichthouder.

Er lijkt onder het nieuwe bestuur dan ook sprake van meer zelfreflectie. Zo neemt men - meer dan voorheen - afscheid van niet-presterende medewerkers en wordt sinds 2013 de kennis op het gebied van gedrag versterkt. Er zijn momenteel 10 tot 15 gedragseconomen en psychologen bij de financiële waakhond in dienst die de samenhang en de effectiviteit van wet- en regelgeving en klantbelang en -communicatie onderzoeken. De AFM is bezig deze kennis nu te centraliseren, zodat men ook meer de samenhang in beeld krijgt tussen wet- en regelgeving en klantgedrag.

De vernietigende kritiek die de toezichthouder voor de voeten geworpen kreeg inzake haar rol in het dossier rond de rentederivaten is ook een punt van interne aandacht en discussie. Toch, zo stelt een van de bronnen van Fondsnieuws, verandert er in de kern te weinig. 'De regeldruk houdt onverminderd aan. De AFM maakt de financiële wereld niet gezond, maar zieker. Dat is het trieste.'

Pensioenstelsel bedreigd, sociale onrust dreigt

Een ander, groot punt van zorg is het monetaire beleid van de ECB, dat honderden miljarden aan obligaties in een negatief rente-territorium duwt. Hierdoor staat de dekkingsgraad van pensioenfondsen over een breed front onder druk en dreigen pensioenverplichtingen niet meer voldaan te kunnen worden. Pensioenbeleggers en asset managers vrezen dat hierdoor niet alleen het pensioenstelsel in zijn voortbestaan wordt bedreigd, maar dat er ook sociale en politieke onrust ontstaat als pensioendeelnemers ontdekken dat het pensioen waar ze hun leven voor gewerkt hebben serieus wordt bedreigd.

Een pensioenbelegger spreekt van 'science fiction': klassieke, risicovrije rendementsbronnen drogen op en beleggers voelen zich gedwongen in meer risicovolle beleggingen te stappen, met alle gevaren van overwaardering en correctie.

Bij de uitreiking van de Fund Awards vroeg Fondsnieuws-hoofdredacteur Cees van Lotringen aan AFM-voorzitter van Vroonhoven wat zij ervan vindt dat de marktstabiliteit waar de AFM voor verantwoordelijk is door de monetaire autoriteiten - zijnde ECB en DNB - nu verstoord wordt.

Van Vroonhoven zag onmiddellijk het publicitair explosieve karakter van deze vraag in en beantwoordde deze met grote terughoudendheid. Wel bevestigde zij haar zorgen en die van de AFM en zei dat dit onderwerp regelmatig aan de orde komt in de gesprekken tussen beide toezichthouders.

Vermoeidheid slaat om zich heen

Tot slot valt het de redactie van Fondsnieuws op basis van vele gesprekken op dat er sprake is van toenemende vermoeidheid onder medewerkers in de financiële sector. Het vak is intellectueel zeer uitdagend en complex geworden en (bedrijfs)politiek-gezien riskant.

Velen voelen zich niet meer zeker van hun baan. Dat heeft echter niets te maken met de toezichthouder, maar met ongekend snelle veranderingen op het gebied van technologie, 'new kids on the block' zoals ETF-aanbieders, en distributeurs die steeds lagere fees afdwingen. Dat dwingt tot voortdurende aanpassingen en reorganisaties - inderdaad, het is de spreekwoordelijke 'perfect storm'.

Title: Toezicht moet juist wel idealistisch zijn, interview Theodor Kockelkoren
Author: -
From: Writers United
Date: unknown

In zijn onlangs verschenen boek Toezicht als beroep gaat Theodor Kockelkoren uitgebreid in op de verschillen tussen niet-idealistisch en idealistisch toezicht, zoals hij het noemt. Niet-idealistisch toezicht is volgens hem gedoemd te mislukken. Zwart-wit gesteld komt dit er volgens hem namelijk op neer dat je je verliest in details, zonder echt problemen op te lossen.

Idealistisch toezicht, is dat nou echt nodig?
'Het probleem met niet-idealistisch toezicht is dat het iedereen aanmoedigt te stoppen met nadenken. Als we namelijk willen dat de toezichthouder ‘gewoon de regels handhaaft’ zullen die regels in onze complexe wereld nogal gedetailleerd moeten zijn. Iedereen zal vervolgens steen en been klagen over de veelheid en starheid van de regels. En ja, dan is idealistisch toezicht toch te verkiezen.'

Maar wie houdt zo’n toezichthouder dan in toom?
'Dat is een terechte vraag, waar geen ideaal antwoord op mogelijk is. In de ogen van sommige zou het ideale antwoord zijn: de Tweede Kamer. Maar de Tweede Kamer is niet op aarde om in detail de handel en wandel van toezichthouders te controleren. Verstandiger is het om te eisen dat een toezichthouder door de verschillende belanghebbenden in toom wordt gehouden. Verstandig is het ook om te zorgen dat de toezichtorganisaties bevolkt worden door goede toezichthouders.'

Bestaan ze eigenlijk wel: idealistische toezichthouders?
'Ja, ze zijn te vinden. Er zijn mensen die voldoen aan de vereiste eigenschappen. Maar: zowel de organisatie als de mensen moeten wel de ruimte krijgen om hun rol te vervullen. De politiek en samenleving zijn daarmee zelf ook steeds aanzet: hoeveel ruimte wil ik mijn toezichthouder geven en hoeveel ruimte geef ik hem daadwerkelijk?'

Zijn dan al onze problemen opgelost?
'Uh, nee. Helaas niet. Idealistisch toezicht kan effectief zijn. Ja, die voorbeelden zijn er. Maar toezicht kan niet alle problemen in onze samenleving oplossen. Er is daarmee niet alleen werk aan de winkel voor toezichthouders. Zij zullen zich tot het uiterste moeten inspannen voor hun effectiviteit. Maar er is meer nodig om bijvoorbeeld de gewezen en bestaande crisis in het financiële stelsel écht te bezweren.'

Title: Vom Zentralbanker zum Zentralplaner?
Author: Benjamin Braun
From: Makronom
Date: September 26, 2016

In den letzten Jahren hat die EZB ihr Mandat weit ausgedehnt. Das ist vielen Kritikern ein Dorn im Auge, was auch Mario Draghi am Mittwoch bei seinem Besuch im Bundestag erneut zu spüren bekommen dürfte. Allerdings lässt sich diese Machtausdehnung über einen rein politikwissenschaftlichen Ansatz nicht ausreichend erklären – vielmehr gilt es, auch die expansive Eigenlogik der Geldpolitik zu berücksichtigen.

Einzigartige historische Umstände bescherten der Europäischen Zentralbank ein einzigartiges Statut: Der Maastrichter Vertrag von 1992 vereinte maximale Unabhängigkeit mit dem minimalistischen Auftrag, allein die Geldwertstabilität sicherzustellen. Auf dem Papier wie in der Praxis glich die frühe EZB weniger einer traditionellen Zentralbank als einer reinen „geldpolitischen Regel“: Ihre Aufgabe bestand darin, ihren Leitzins und die Inflationserwartungen zu steuern, entsprechend unspektakulär waren ihre Sitzungen und die begleitende Berichterstattung.

Fünfundzwanzig Jahre später hat sich zwar auf dem Papier nur wenig geändert. In der Praxis hingegen hat das Pendel inzwischen in die andere Richtung ausgeschlagen – heute erinnert die EZB eher an eine Zentralplanerin als an eine Zentralbank. Wie lässt sich diese zentralplanerisch anmutende Form der Wirtschaftssteuerung im Herzen einer ansonsten immer stärker marktwirtschaftlich verfassten kapitalistischen Ordnung erklären? Handelt es sich um eine vorübergehende Entwicklung – eine Anomalie, die mit der Rückkehr in ruhigeres Fahrwasser verschwinden wird?

Großer Finanzsektor, große Zentralbank

Ob in London, New York oder Tokyo – in den Finanzzentren der Welt nehmen die Zentralbanken heute in großem Stil aktiv am Marktgeschehen teil. Die Ausdehnung der EZB ist also kein Einzelfall. Auch begann diese Ausdehnung bereits vor der Finanzkrise von 2008, und eine Umkehr ist auch ein knappes Jahrzehnt später nicht absehbar. Kurz: Der Aufstieg der Zentralbanken zu einem der wichtigsten Organe der globalen Wirtschaftspolitik ist weder ein rein europäisches noch ein kurzfristiges Phänomen. Vielmehr fällt es geografisch und zeitlich mit dem Wachstum der Finanzmärkte zusammen.

Das zentralplanerisch anmutende Zentralbankhandeln ist das notwendige Gegenstück zur Ausdehnung „freier“, aber fragiler und instabiler Finanzmärkte

Diese Beobachtung bildet die Grundlage für den folgenden Beitrag. Die Ausdehnung der EZB wird hinsichtlich dreier Dimensionen untersucht – dem Erwartungsmanagement, der Marktkonstruktion und der Wertpapierkäufe. Der zentrale Befund lautet, dass ein zentralplanerisches Zentralbankhandeln das funktionale (wenngleich problematische) Gegenstück zur Ausdehnung „freier“, aber fragiler und instabiler Finanzmärkte darstellt.

Finanzialisierung und makroökonomische Steuerung

Die Frage nach dem Verhältnis zwischen big finance und big central banking ist zentral für unser Verständnis sowohl von „Finanzialisierung“ an sich als auch von den Möglichkeiten und Grenzen makroökonomischer Steuerungspolitik.

Der Begriff „Finanzialisierung" bezeichnet den Bedeutungs- und Machtzuwachs der Finanzmärkte gegenüber anderen Wirtschaftsbereichen, der die Entwicklung des Kapitalismus seit den 1970er-Jahren entscheidend geprägt hat. Das Shareholder-Value-Prinzip in der Unternehmensführung, die wachsende Verschuldung von Haushalten und Unternehmen, die Privatisierung sozialer Sicherungssysteme und der Altersvorsorge, die Erfindung immer neuer Wege, künftige Zahlungsströme in investierbare Wertpapiere zu verwandeln – all diese Entwicklungen spiegeln verschiedene Facetten des finanzialisierten Kapitalismus wider.

Historisch betrachtet ist diese Ausprägung des Kapitalismus klar vom „fordistischen" Produktionsregime der Nachkriegsjahrzehnte abzugrenzen. Dieses Regime beruhte maßgeblich auf der Einhegung der Finanzmärkte durch strikte Regulierung auf nationaler und durch Kapitalverkehrskontrollen auf internationaler Ebene. Diese Einhegung verschaffte den Staaten einen gewissen wirtschaftspolitischen Spielraum. Das wichtigste makroökonomische Steuerungsinstrument war hier die Fiskalpolitik: Die Regierung stabilisierte die Konjunktur, indem sie die Staatsausgaben erhöhte oder senkte.

Die Aufhebung von Kapitalverkehrskontrollen in den 1970er-Jahren und die Deregulierung des Bankensektors seit den 1980er-Jahren setzten die Finanzialisierung in Gang. Dies trug zu einem wirtschaftspolitischen Paradigmenwechsel zugunsten der Inflationskontrolle bei. Das Ergebnis war eine Verschiebung des Zentrums makroökonomischer Steuerung von Fiskalpolitik hin zur Geldpolitik, und somit von Parlament und Finanzministerium hin zur Zentralbank.

Mitte der 1990er-Jahre gab es ein erstaunliches Maß an Übereinstimmung hinsichtlich des Wesens und der Ziele der Geldpolitik. Die Zentralbanken wurden darauf verpflichtet, die Preisstabilität zu wahren. Im Gegenzug für diese Engführung erhielten sie weitgehende Unabhängigkeit. Dies galt auch und vor allem für die EZB, die 1999 den Betrieb aufnahm. Und dann? Kam alles ganz anders. Die Zentralbanken – allen voran die EZB – begannen zu expandieren.

Die expansive Logik der Geldpolitik

Die umfangreiche politikwissenschaftliche Literatur zur EZB beruht allzu oft auf der Vorstellung, dass es sich bei der EZB um eine von vielen administrativen Institutionen der EU-Bürokratie handelt. Als solche erstrebe sie die Ausweitung ihrer Einflusssphäre. Diese Perspektive versperrt jedoch den Blick auf politökonomische, strukturelle Aspekte des Zentralbankhandelns. Es gilt, die Zentralbank als Bank ernst zu nehmen.

Zentralbanken haben innerhalb des Institutionengefüges kapitalistischer Gesellschaften – demokratisch oder nicht – eine Sonderstellung. Wie andere Arme des Regierungsapparates sind sie mit gewissen staatlichen Privilegien ausgestattet. Gesetzlich zugesichert sind ihnen insbesondere das Monopol, Zentralbankgeld zu schöpfen, und die Kompetenz, Banken dazu zu verpflichten, Geldreserven zu halten. Doch diese Privilegien bilden lediglich die juristische Basis für die Handlungsfähigkeit der Zentralbank. Sie handelt – anders als die übrigen Organe der Legislative, Exekutive und Judikative – nicht durch gesetzliche oder administrative Akte, sondern durch Markttransaktionen. Die EZB handelt, indem sie handelt – mit Geld und mit Wertpapieren.

Die Vorstellung, dass ein freier Markt nur dort existieren kann, wo sich der Staat zurückzieht, gilt zu Recht als überholt. Auch Finanzmärkte können ohne den regelsetzenden und regulierenden Staat nicht existieren. Doch die Rolle der Zentralbank geht darüber hinaus. Sie agiert selbst als aktive

Marktteilnehmerin – vor allem im Geldmarkt, aber auch im Kapital- und im Devisenmarkt. Mit anderen Worten, die EZB ist zwar die Zentralbank, bleibt aber im Kern eine Bank.

Der Transmissionsmechanismus der Geldpolitik

Die makroökonomische Steuerungsfähigkeit der EZB beruht darauf, dass ihre Kreditoperationen im Interbankenmarkt auf die Volkswirtschaft insgesamt übertragen werden. Auf diesen Übertragungs- beziehungsweise Transmissionsmechanismus angewiesen zu sein, ist gleichzeitig die größte Schwäche der Zentralbank. Denn einen umständlicheren Weg, die gesamtwirtschaftliche Entwicklung zu beeinflussen, könnte man sich kaum vorstellen.

Anders als die Fiskalpolitik sind die Kreditgeschäfte der Zentralbank im Interbankenmarkt ein indirektes und störanfälliges makroökonomisches Steuerungsinstrument. Der Transmissionsmechanismus der Geldpolitik ist hochkomplex. Es ist ein langer Weg von dem von der EZB festgelegten Hauptrefinanzierungssatz über den kurzfristigen Interbankenzinssatz im Geldmarkt zu langfristigen Marktzinsen bis hin zum allgemeinen Preisniveau der Volkswirtschaft.

Anders als die Fiskalpolitik sind die Kreditgeschäfte der Zentralbank im Interbankenmarkt ein indirektes und störanfälliges Steuerungsinstrument

Der Bank-Charakter der EZB und die relative Schwäche ihres Steuerungsinstrumentariums – diese beiden Konzepte stecken einen theoretischen Rahmen ab, der es erlaubt, die scheinbar chaotische, in verschiedene Richtungen weisende Expansion des Zentralbankhandelns systematisch nachzuvollziehen.

Marktkonstruktion

Der Transmissions-Chart zeigt, dass Finanzmärkte für die Wirksamkeit der Geldpolitik entscheidend sind. Um den Geldmarktzins im Interbankenmarkt mit dem von der EZB festgelegten Hauptrefinanzierungssatz in Einklang zu bringen, führt die EZB sogenannte Repo-Transaktionen durch. Dabei erwirbt sie Wertpapiere von den Geschäftsbanken, die im Gegenzug Zentralbankgeld erhalten. Nach Ablauf einer zuvor festgelegten Frist – meist eine Woche – kaufen die Banken diese Wertpapiere zu einem etwas höheren Preis zurück. Die Preisdifferenz macht den Zinssatz des Kreditgeschäfts aus.

Von Beginn an setzte sich die EZB für den Ausbau des Repo-Marktes in der Eurozone ein. Als größte Marktteilnehmerin setzte sie wichtige Standards, die dabei halfen, den Repo-Markt zur zentralen Finanzierungsquelle des Bankensystems der Eurozone zu machen. Mit weitreichenden Konsequenzen – der zwischenzeitliche Kollaps dieses Marktes war ein Schlüsselfaktor für die Bankenkrise von 2008/2009. Indem die EZB den Banken in dieser Situation unbegrenzt Liquidität zur Verfügung stellte, übernahm sie die Rolle des Repo-Marktes. Eine ganz ähnliche Dynamik ließ sich im Verbriefungsmarkt beobachten, den die EZB 2008 zunächst rettete und seitdem stark gefördert hat.

Erwartungsmanagement

Bis in die frühen 1990er-Jahre galt Geheimniskrämerei unter Zentralbankern als Tugend. Alan Greenspan, der legendäre Chef der US-Notenbank Federal Reserve sagte einst:

„Sollten Ihnen meine Aussagen zu klar gewesen sein, dann müssen Sie mich missverstanden haben."

Heute herrscht ein gegenteiliger Konsens: je transparenter die Kommunikation der Zentralbank, desto effektiver ihre Geldpolitik. Die Entwicklung der Kommunikationsstrategie der EZB lässt sich als eine stete Ausweitung ihres Erwartungsmanagements in die Zukunft beschreiben. Dabei erhöhte die EZB schrittweise sowohl die Frequenz als auch den Informationsgehalt ihrer makroökonomischen Projektionen. Diese Entwicklung erreichte eine neue Dimension, als die EZB unter Mario Draghi begann, ihren zinspolitischen Kurs über längere Zeiträume hinweg festzulegen. Mit dieser forward guidance versucht die EZB, die Reichweite ihres Erwartungsmanagements weiter in die Zukunft auszudehnen und somit größeren Einfluss auch auf den langfristigen Marktzins auszuüben. Diese Strategie ist das kommunikative Pendant zu den in den letzten Jahren stark ausgeweiteten Wertpapierkäufen der EZB.

Wertpapierkäufe

Wie gezeigt, sind Wertpapierkäufe (in Form von Repo-Transaktionen) das täglich Brot der Geldpolitik. Traditionell beschränkten sie sich jedoch auf das kurzfristigste Segment des Geldmarktes: den Interbankenmarkt. Unter „normalen“ Bedingungen reichte dieses Instrument aus, um die Zukunftserwartungen der Finanzakteure und somit die makroökonomisch viel wichtigeren, langfristigen Marktzinssätze zu beeinflussen.

Ab 2010 begann die EZB jedoch, direkt in Märkte für Wertpapiere mit längeren Laufzeiten einzugreifen. Sie tat dies zunächst mit dem Ankauf von Staatsanleihen in einem vergleichsweise kleinen Rahmen. Später tat sie es indirekt, indem sie langfristige und günstige Liquidität zur Verfügung stellte, welche die Banken wiederum zum Erwerb von Staatsanleihen einsetzten. Auch hier reihte sich deshalb das im März 2015 gestartete Ankaufprogramm für Staatsanleihen (quantitative easing, siehe dazu auch Gesellschaftsforschung 15/1) in eine Serie von vorangegangenen Maßnahmen ein.

Die Grenzen der Zentralbankplanung

Das gemeinsame Ziel von Erwartungssteuerung und Wertpapierkäufen, der langfristige Marktzins, war lange Zeit Tabu für die Geldpolitik. Er galt als Barometer, das die Zukunftserwartungen unzähliger Marktteilnehmer aggregierte und zu einer Einschätzung der gesamtwirtschaftlichen Lage verdichtete. Heute hingegen reflektiert der langfristige Zins deutlicher als zuvor die geldpolitischen Maßnahmen der EZB und anderer Zentralbanken.

Diese Entwicklung lässt sich anhand der Verschiebungen der Zinsstrukturkurve für Staatsanleihen der Mitgliedsländer der Eurozone zeigen. Die vertikale Achse gibt die Renditen an, die sich mit Anleihen verschiedener Laufzeiten (horizontale Achse) erzielen lassen.

Im Dezember 2010 etwa erzielten staatliche Rentenpapiere mit einer Restlaufzeit von einem Monat im Durchschnitt eine Rendite von 1,2%, solche mit einer Restlaufzeit von 30 Jahren hingegen eine Rendite von 4,4%. Der Effekt der Erwartung, der Ankündigung und des eigentlichen Beginns (im März 2015) von quantitative easing auf den langfristigen Zins lässt sich von den Zinsstrukturkurven von April 2014 bis September 2016 ablesen. In diesem Zeitraum fiel der dreimonatige Zinssatz von 0,2 auf −0,4%, während der 30-jährige Zinssatz von 3,6 auf 1,4% absackte.

Auch wenn sie nicht allein auf das Konto der EZB geht, spiegelt diese „Abflachung“ der Zinsstrukturkurve dennoch die enorm erhöhte Reichweite der Geldpolitik wider. Gleichzeitig profitieren der Repo- und der Verbriefungsmarkt, deren Fortbestand bisweilen fraglich erschien, von massiven Stützungsmaßnahmen der EZB.

Die EZB muss immer weiter im Finanzsystem ausgreifen, um die gewünschten Ergebnisse zu erreichen

Ungeachtet der Frage nach der juristischen Legalität – vom Geiste ihres ursprünglich minimalistischen Mandats hat sich die EZB längst verabschiedet. Ein rein politikwissenschaftlicher Ansatz greift bei der Erklärung dieser dramatischen Ausdehnung allerdings zu kurz. Diese lässt sich nur verstehen, wenn man die expansive Eigenlogik der Geldpolitik einbezieht. Das Wachstum der Finanzmärkte führte zu einer Aufwertung der Geldpolitik gegenüber der Fiskalpolitik. Doch überhöhte Erwartungen an die wirtschaftliche Steuerungsfähigkeit der Geldpolitik überfordern die Zentralbank. Die EZB muss immer weiter im Finanzsystem ausgreifen, um die gewünschten gesamtwirtschaftlichen Ergebnisse zu erreichen. Zentralbankplanung ist deshalb weder Anachronismus noch Anomalie. Ihre Grenzen dürften dennoch erreicht sein.

Zum Autor:
Benjamin Braun ist wissenschaftlicher Mitarbeiter am Max-Planck-Institut für Gesellschaftsforschung in Köln. Seine Forschung konzentriert sich auf die politische Ökonomie geldpolitischer Wirtschaftssteuerung in der Eurozone sowie auf die politische Ökonomie des „Asset Manager Kapitalismus". Brauns Dissertation über die institutionellen Voraussetzungen für die Wirksamkeit geldpolitischer Steuerungsinstrumente wurde mit dem Sir Walter Bagehot Prize in Government and Public Administration der britischen Political Studies Association ausgezeichnet. Das akademischer Jahr 2016/17 verbringt er als John. F. Kennedy Memorial Fellow am Center for European Studies der Harvard University. Auf Twitter ist er unter @BJMbraun zu finden.

Title: Announcement on ,Risk, Return and Impact: a new role for capital in building a better world. *The Economist* Impact Capital Summit
Author: -
From: The Economist
Date: February 15, 2017

The relationship between the private capital markets and the well-being of society and the planet has become a hot topic. In 2015, in New York and Paris, the world's governments signed up to ambitious goals to curb climate change and generate the sort of economic growth that benefits everyone, not just a wealthy minority – goals that it is estimated will require over $2.5 trillion a year of additional private investment.

At the same time, partly in response to criticisms that irresponsible short-termism in the capital markets caused the 2008 financial crash and the Great Recession that followed, some leading capital-market institutions have pledged to take a more long-term, sustainable and socially responsible approach to investing.

This new mood is best illustrated by the emergence of a new approach to putting capital to work called "impact investing". Impact investing, which sets out simultaneously to generate a financial return and a positive environmental/social effect, builds on several older developments, including ethical investing, ESG (environmental, social and governance) investing and socially-responsible investing (financial institutions managing over $79 trillion in assets have signed the UN Principles for Responsible Investment, for example).

Having started out as a niche activity, largely practised by wealthy and philanthropically-inclined individuals, impact investment is now championed by a growing number of leading institutions in the capital markets, including Bain Capital, BlackRock, Goldman Sachs and Prudential, to name but a few.

This is potentially an extremely important development, if it results in a socially beneficial, sustainable approach to investing being embraced wholeheartedly by the mainstream capital markets. As a recent G8 taskforce on impact investing predicted, perhaps the 20th Century approach to investing, based on risk and return, will be replaced by a 21st Century model built on risk, return and impact.

Yet such a shift is by no means inevitable. Critics question whether the recent commitment of mainstream finance to impact investing is more than skin deep. There is also a lack of agreement among those using the term impact investing about exactly what it means, including what the right balance should be between making money and doing good, and whether or not it can be applied meaningfully to investing in publicly traded equities. And, certainly, until impact can be measured properly, mainstreaming impact investing is likely to be elusive – which is why a lot of effort is now being devoted to coming up with reliable impact data.

Bringing greater clarity and more agreement about the essentials of this new approach to investing is one of the goals of our first Impact Investment Summit, to be held next February in New York. We will convene, under the chairmanship of Economist editors, leading financiers, institutional investors, policymakers, academics, impact investors and philanthropies to analyse the main opportunities and obstacles to the mainstreaming of impact investment and to identify what needs to be done to make it happen. It will be an important conversation: how trillions of dollars will be invested is at stake.

Title: Can Impact Investing move into the Mainstream?
Author: Stephen Foley
From: The Financial Times
Date: November 1, 2015

Can impact investing, which aims to provide a tangible social benefit as well as a financial return, move into the mainstream?

Large asset managers have placed bets this year that it will: US investment bank Goldman Sachs acquired Imprint Capital, a specialist consultancy; BlackRock, the world's largest fund house, headhunted Deborah Winshel, head of the Robin Hood Foundation, an anti-poverty charity, to run an impact division; and Bain Capital, the private equity giant, has begun raising funds for impact investing.

A number of trends are coming together. A new generation of savers believe investment can be used for good or for ill, and would like it to be the former. Young entrepreneurs often have a social mission as well as a profit motive, and more companies are set up explicitly to pursue a "double bottom line". Non-profits are experimenting with sustainable financing models that are opening up investment opportunities such as social impact bonds.

But have no illusions. Only $60bn can be identified specifically as impact investment to date, eight years after the term was coined. There are large tasks ahead if impact is to be a meaningful part of the investment landscape rather than a passing buzzword.

Some of that scepticism was on display at the FT Live Investment Management Summit (IMS) where I led a roundtable on the subject with Ms Winshel and Abigail Noble, who runs TheImpact.org, a project funded by billionaires who are interested in promoting impact investment.

Financial advisers who attend IMS are the gatekeepers of wealthy families' fortunes. Millennial scions may be agitating for investments that do good in the world, but financial advisers see their primary role as minimising risk and maximising returns. If impact investing cracks the adviser audience, it will have hit the mainstream.

So what were the advisers in the room thinking? Here is a sample: "I cannot tell what is an impact investment and what is not." "I cannot be sure what impact my investment is really having." "I fear impact investments are not made with the same financial rigour as other investments." And, "even when I was persuaded of the idea, I could not find enough opportunities that would have an impact on my client's chosen problem". We are at the more-questions-than-answers stage of this nascent investment area.

Part of the problem is defining terms. Impact investments can be either "market rate" or "concessionary". The former are investments that generate equivalent (or better) returns than others in the same asset class. A stake in a company that tackles recidivism by employing former prisoners is probably going to generate the same return as any other company in the same industry.

The latter are expected to generate a lower return. Below market-rate microfinance loans to spur female entrepreneurship and empower women in developing countries would be an example of a concessionary impact investment. My own view is that two different terms would be better, perhaps "concessionary investing" or "leveraged giving" for the latter, leaving impact investing for market-rate investments.

That aside, the real problem is measurement. By definition, an impact investment has a quantified societal return. Yet who does the quantifying, and of what? Different investors will be motivated to achieve different impacts, whether it be in education, health or equality at home or abroad, but even within quite narrow areas (eg, promoting girls' education in sub-Saharan Africa) different ventures can target different outcomes (time spent in school or educational attainment through remote learning). We are not just comparing apples and oranges, but the whole fruit salad.

Index providers such as MSCI, governance consultants such as Sustainalytics, agencies such as the World Bank and start-ups such as B Labs are among those trying to build impact score sheets and certification systems.

Asset managers can also do it in-house. A new BlackRock Impact US Equity fund promises its portfolio of publicly traded companies will have "positive aggregate societal impact outcomes" as scored by BlackRock on "green innovation, corporate citizenship, high-impact disease research, ethics controversies and litigation".

By targeting an aggregate score, the BlackRock fund is free to sweep in quite large companies, such as pharmaceuticals whose products are saving lives. That expands the universe of investment opportunities, overcoming a hurdle to mainstream adoption, but it is a far cry from funding sanitation projects in the developing world.

Infrastructure, such as transportation links that can promote trade or clean-energy plants that can cut a country's carbon emissions, may be a happy area where investing can be done at scale and with high impact.

At our roundtable, Ms Winshel made the case for modesty of ambition at this early stage in the development of impact investing. "The worst thing we can do is promise too much and then fail to deliver," she said.

Financial advisers will be asking sceptical questions every step of the way, a bulwark against over-enthusiasm.

Stephen Foley is the FT's US investment correspondent

Title: The State of Impact Investing; Is it a Houseboat or is it Brunch?
Author: Jean Case
From: Forbes
Date: April 26, 2016

Since first getting engaged in the impact investing movement several years ago, I've participated in hundreds of dialogues ranging from one-on-one conversations, to college and business school classes, to large, institutional and conference gatherings in the thousands. From these experiences, two moments stand out in my mind with clarity, and both gave me pause. The first, at a conference of high net worth and philanthropically-minded individuals, I heard a humorous but cynical comment from a celebrated venture capitalist—it went something like this: "Impact investing is like a houseboat; it's not a good house and it's not a good boat." Ouch… Do we ever have our work cut out for us if we are going to broaden this tent, I thought.

It was only a few months later while guest lecturing in a class at Yale's School of Management, when I shared the cynical comment with the class, underscoring that there are those who bring a more negative view of impact investing. It was then that a young man raised his hand and offered his own perspective: "I think impact investing is like brunch, it's better than breakfast and better than lunch!" For me these "two sides of the same coin" are highly reflective of what we've seen in our work with impact investing from the start. And while some days it feels like we still have a chasm between the true believers and the most ardent cynics, in reality, there is no question that we're already seeing impact investment mature into a movement that is being more widely embraced than ever before.

Both in the U.S. and around the world we've seen segments of the market move from informed, to educated, to activated. We've seen new private capital unleashed with a focus on impact across sectors, geographies, industries, issue areas and asset classes. I'm excited to be in Chicago this week to speak at the Impact Capitalism Summit where I join hundreds of other people gathered to discuss the state of the impact investing movement and what the future may hold. As part of this gathering, we'll take some time to reflect on the tremendous progress we've seen recent months that represent impressive momentum in the movement.

The Current State of Impact Investing

Over recent months, there has been robust activity in the impact investing realm. For example, in June of 2015, DBL Partner closed DBL Partners III*, a $400 million impact fund. Just a month later, Goldman Sachs Asset Management announced its acquisition of Imprint Capital, an impact investing advisory firm. As recently as December we saw the first impact group, LeapFrog Investments, surpass $1 billion in equity commitments to impact investments (focused on healthcare and financial services in Africa and developing Asia).

In addition, we've seen initiatives gain ground that will play an important role in moving even more individuals and institutions off the sidelines. From the launch of The ImPact in Davos, to B Lab, the nonprofit that certifies B Corporations, releasing enhanced tools to help all businesses measure, report and improve their social impact, to a seminal report issued by the Global Impact Investing Network, Omidyar Network and Monitor 360 indicating that impact investing has enjoyed mostly positive coverage and engagement in both traditional and social media.

We've also seen significant policy wins over the last 12 months—just last week, the Treasury Department and IRS finalized Program-Related Investment (PRI) regulations requested by the philanthropic community. The regulations included new examples that better clarify the full range of investments that qualify as PRIs across the spectrum of charitable purposes—arts, the environment, health and more. And updated ERISA guidance and IRS rules for Mission-Related Investments (MRI) announced in late 2015 are expected to increase the private capital and foundation endowment funds available for impact investing, in turn creating enormous public benefit in the form of investments in clean technology, infrastructure and economic opportunity. In addition, foundations can now incorporate their social mission into their endowment investment decisions. Taken together, these policy changes—many of which were outlined in the U.S. National Advisory Board on Impact Investing's report—demonstrate that the federal government recognizes the significant potential of impact investing and the role that 21st century policymaking plays in its success.

We've also seen a rapidly growing body of research that combats the "houseboat" myth, indicating that having an impact doesn't mean sacrificing returns. In 2015 the GIIN and Cambridge Associates released "The Impact Investing Benchmark," which shows impact investments don't require financial sacrifice with aggregated financial performance data. And the Wharton School at the University of Pennsylvania released "Great Expectations" in October 2015, which noted that 53 private equity impact funds from around the world, that demonstrated market-rate-seeking impact funds, could indeed achieve targeted returns and successful, mission-aligned exits.

These recent major milestones in the movement give me reason to say with confidence that the State of Impact Investing today is stronger than ever as more people and institutions begin to more carefully align their investments and deployment of capital with their values.

Title: De keerzijde van de techno-aalmoes
Author: Valerie Frissen
From: Het Financieele Dagblad
Date: February 27, 2016

Eind vorig jaar maakte Facebook-oprichter Mark Zuckerberg ter gelegenheid van zijn prille -vaderschap bekend dat hij van plan was vrijwel zijn hele vermogen (geschat op $ 45 mrd) in een liefdadigheidsfonds te stoppen. Zuckerberg oogstte daarmee veel bewondering. Dat hij al op zo'n jonge leeftijd zijn rijkdom wil delen met anderen leverde hem veel likes op.

In een brief aan zijn pasgeboren dochter spreekt Zuckerberg de hoop uit dat zij zal opgroeien in een betere wereld, waarin armoede, ziekte en onderontwikkeling definitief tot het verleden behoren. Hij ziet het als morele plicht om hier zijn steentje aan bij te dragen. Het zal niemand verbazen dat hij daarbij gedreven wordt door een heilig geloof in technologie. Door flink te investeren in 'tech for good' kunnen we de grote problemen van onze tijd effectief aanpakken, zo spreekt hij tot zijn babydochter. Met technologische middelen kunnen we armoede en ziekte de wereld uit helpen en mensen overal ter wereld met elkaar verbinden en toegang geven tot kennis en kansen, ongeacht hun achtergrond of afkomst. We doen nu al veel mooie dingen, zegt Zuckerberg, maar de echte technologische reis moet nog -beginnen: dit is het moment om daar met volle kracht op in te zetten. En, dat moet gezegd, daarvoor heeft hij een zeer fors bedrag over.

Mark Zuckerberg is niet de enige techmiljardair die het verbeteren van de wereld tot zijn belangrijkste missie heeft verklaard. Velen gingen hem voor. Zo is het budget van de Melinda & Bill Gates Foundation op dit moment de grootste liefdadigheidsgeldpot ter wereld. Een ander opvallend initiatief is de Breakthrough Energy Coalition die bij de klimaattop in Parijs werd gelanceerd. Het gaat hier om een groep van super-rijke investeerders (Amazon, Virgin, Tata, -Hewlett Packard en Alibaba) die miljarden gaan steken in schone energie.

Benauwend
Het fonds Chan-Zuckerberg is in feite een investeringsmaatschappij die geen publieke verantwoording hoeft af te leggen

Vermogensfondsen zijn natuurlijk niet nieuw, maar lijken wel bezig aan een opmars. In het FD meldde de voorzitter van de Samenwerkende Brancheorganisaties Filantropie onlangs dat er in Nederland zo'n tweeduizend fondsen van vermogende partijen zijn en dat er ieder jaar honderd bij komen. Daarnaast valt op dat vooral techbedrijven steeds explicieter maatschappelijke doelstellingen hoog in het vaandel voeren. De klassieke liefdadigheid verandert van karakter nu techno-optimisme steeds meer de drijfveer wordt. Investeringen in technologische innovatie en maatschappelijke waarden komen dan steeds dichter bij elkaar te liggen.

Technologie wordt de aalmoes van de 21ste eeuw. Door je geld te zetten op technologieontwikkeling draag je niet alleen bij aan economische vooruitgang, maar verbeter je ook nog eens de wereld. Hoe fijn is dat! Deze trend brengt ook met zich mee dat ouderwetse liefdadigheid een ander gezicht krijgt. Het gaat niet meer om traditionele weldoeners bij wie je kunt aankloppen voor een gift. In de techno-caritas wordt een breed scala aan instrumenten ingezet, van sociale impact-investeringen en microkredieten tot gewone leningen en participaties: instrumenten die van oudsher meer passen bij de harde financieringswereld. Ook de begunstigden zijn niet meer de traditionele partijen die zich inzetten voor het goede doel, maar steeds vaker sociale ondernemers die maatschappelijke impact koppelen aan gewoon geld verdienen. En, last but not least, zien we dat door deze nieuwe vorm van filantropie techbedrijven steeds meer opschuiven naar een terrein waar voorheen de overheid de regie voerde. De overheid treedt terug en spreekt over een participatiesamenleving: private partijen springen in dat gat en trekken de verantwoordelijkheid voor het 'oplossen' van maatschappelijke uitdagingen naar zich toe.

En daarmee raken we de keerzijde van de opmars van de techno-caritas à la Zuckerberg. Het onwrikbare geloof in technologie gaat zeker in Silicon Valley vaak samen met een grondige afkeer van overheid en politiek. Tech-startups en hun geldschieters zien de overheid vooral als een rem op technologische innovatie en zij zijn er van overtuigd dat grote maatschappelijke uitdagingen bij hen in veel betere handen zijn.

Hiermee trekken de nieuwe filantropen echter ook veel politieke verantwoordelijkheid naar zich toe, zonder dat er sprake is van enige vorm van democratische controle of verantwoording. Het Chan-Zuckerbergfonds is in feite een investeringsmaatschappij, waarbij vooral Zuckerberg bepaalt wat de urgente maatschappelijke uitdagingen zijn en waar we de oplossingen moeten zoeken. En daar krijg ik het dan toch wat benauwd van.

Title: A response to the Alliance Special Feature ‘Markets for Good: Removing the Barriers’
Author: Joe Ludlow
From: Alliance Magazine
Date: October 30, 2014

In the recent Alliance special feature, ‘Markets for good: removing the barriers’, we had not just one article but several from around the globe! It’s a joy to think that the field is now at a point that such an esteemed and diverse group of contributors can come together and debate the issues raised by Monitor Inclusive Markets’ report Beyond the Pioneer: Getting inclusive industries to scale. For me one big issue the report raises is the role of government vis-à-vis impact investing in addressing social problems.

Beyond the Pioneer is framed as an exploration of the barriers faced by social/impact enterprise when attempting to scale up their operations. Many of the responses to the paper looked through the lens of social/impact investing and its role in overcoming those barriers. In my opinion, the barriers to scale faced by social ventures as identified in the paper (at the level of the firm, value chain, public goods and government) are a helpful framework to consider what is needed to tackle any complex problem, i.e. it is a means of exploring a whole system of innovation around a need. It shouldn’t surprise us that solving persistent social problems effectively, at meaningful scale and with longevity, requires interventions beyond the level of a single firm. I agreed with Guillaume Taylor that the lessons from Monitor Inclusive Markets’ developing world experience have plenty of resonance with our experience making impact investments within the UK’s developed economy and government structures.

So I want to respond to the special feature on five particular points that speak to my experience investing in UK social ventures operating at the boundaries of private, social and public sectors in education, social care and local communities.

Start with the impact

The first is a simple one that arises throughout the special feature: the absolute importance of being impact focused and developing strategy from that starting point. We mustn’t assume that starting or growing a venture is the best route to impact. Yet this point got lost where the debate looked at ‘the sector’ versus ‘the mainstream’. Our pragmatic approach at Nesta is to not worry too much about sector, legal status, intention to make profit or not, but to focus on how can you have the best effect on the problem for the greatest number of people.

Balancing the push and pull

The second point that resonated is the interplay between demand and supply of product/service, or as some described it ‘push and pull’. That ventures will find it easiest to scale when there is a balance between the two is obvious. For example, our portfolio company FutureGov has been developing digital tools to improve social services for over five years and pushing to get them adopted, but a change in its market (government funding cuts and a digital first policy) have brought demand closer to balance with its supply. But I think we must be careful here about using the cold language of ‘push’ or ‘creating demand’ when what we are describing could easily be seen as at best paternalism (‘we know what is good for you’) or at worst selfinterest (payment protection insurance, for example). Democratic representation through government (or other means) has an important role in overseeing and representing people in this push-pull tension.

Do impact investors make good industry facilitators?

My third point is about the role identified as 'industry facilitators'. This is a highly sensitive area, and I'm not comfortable with the suggestion of the Beyond the Pioneer authors and guest editors Audrey Selian and Ken Hynes that investors are well placed to do this job. In the markets where I invest – education, healthcare and financial services for example – specialist organizations are needed for the distinct market facilitation roles that are so necessary. For example: The Education Endowment Foundation is a commissioner of evaluation and a repository of information about what interventions work in education (the UK government set this up, and is funding a series of 'What Works Centres' in different areas of social need). We have two investments focused on reducing the social isolation of older people, but the Campaign to End Loneliness is much better placed to campaign for wider recognition of the issue and better funding of support services than we are.

The role of social ventures

My fourth point is about the role of the social venture in pursuing an impact objective. We must remember that growing a venture is only one means (among many) of addressing difficult social problems. As the Monitor Inclusive Markets framework illustrates, a lone venture is unlikely to succeed if other means are not being deployed at the same time. In my portfolio, Ffrees seeks to address financial exclusion among low-income families in the UK by offering an alternative to a high street bank current account, but it relies on many other system factors from regulation to the mass availability of the internet to achieve its goals. Social ventures are built primarily around product or service innovations, and they optimize their solutions to current and nearterm market conditions rather than directly seeking to shape the wider environment for the long term. I found the Ignia model helpful here in illustrating the need for a venture to position itself where there is a tolerable balance between product innovation and sector/market readiness.

The role of investors and funders

I deliberately put the role of investors and funders as my last point. As an impact investor, I spend my time working my way through the previous four points: what is the impact objective? What are the dynamics of the marketplace and who is facilitating it? Is scaling a social venture a useful and viable impact strategy, and therefore what can I invest in? Impact investing is a tool that can help (but not do everything) to grow social ventures, as the Beyond the Pioneer authors point out, but it's still early days. So I felt uncomfortable at places in the special feature where contributors seemed to have a bigger vision of impact investing and what it can do.

I also have some ethical concerns. I don't think investors should seek to be a substitute for democratic government in facilitating markets for the delivery of social outcomes, assuming we know what is good for people.

Social innovation historically took place in the social or charitable sector and sought adoption by government as its route to scale – either directly as public service or indirectly through regulation to steer the private market. The depth and complexity of many social problems demands a high scale and quality of innovation. The social venture and impact investing movement is, for me, aiming to deliver impact through a blend of the benefits of social impact focused innovation with the scale and speed of growth of the private sector with the democratic accountability and universality of the state. The Alliance special feature explored the opportunities and challenges of this approach comprehensively even if I didn’t agree with all the assumptions contributors made.

Title: Ethical Innovation in Business and the Economy – a Challenge that Cannot be Postponed
Author: Georges Enderle
From: Edward Elgar Publishing
Date: December 19, 2015

INTRODUCTION: A HISTORICAL LOOK AT THE IMPORTANCE OF INNOVATION

In his captivating historic account The Wealth and Poverty of Nations: Why Some Are So Rich and Some So Poor (1999) David Landes discusses the question of why the Industrial Revolution happened in Europe, a relatively poor world region at that time, and not in the Middle East with its high Islamic culture, nor in China, the richest country in the middle of the second millennium. His short answer points to the Europeans' cultivation of invention (called 'the invention of invention' by some authors) as well as the European joie de trouver or the pleasure in what is new and better. These developments arose due to much less interference in Europe by religion (as was happening in the case of Islam) or by the state (as was happening in the case of China):

> *The Europeans … entered during these centuries [of the Middle Ages] into an exciting world of innovation and emulation that challenged vested interests and rattled the forces of conservatism. Changes were cumulative; novelty spread fast. A new sense of progress replaced an older, effective reverence for authority. This intoxicating sense of freedom touched (infected) all domains. These were years of heresies in the Church, of popular initiatives that, we can see now, anticipated the rupture of the Reformation; of new forms of expression and collective action that challenged the older art forms, ques- tioned social structures, and posed a threat to other polities; of new ways of doing and making things that made newness a virtue and a source of delight; of utopias that fantasized better futures rather than recalled paradises lost. (Landes, 1999, pp. 57–8)*

Landes, in Chapter 3, first describes organizational innovations and adaptions in polities and commerce. In Chapter 4, he then explains technological innovations with the help of several examples: the water wheel, eyeglasses, the mechanical clock, printing, and gunpowder. Critical in this process were not only the inventions – numerous examples happened in other parts of the world as well – but also the fact that they were made feasible in economic and financial terms. For these applications, he asserts, the market plays a crucial role: Enterprise was free in Europe. Innovation worked and paid, and rulers and vested interests were limited in their ability to prevent or discourage innov- ation. Success bred imitation and emulation; also a sense of power that would in the long run raise men almost to the level of gods. (Landes, 1999, p. 59)

Switching from the Industrial Revolution to the present day, we can observe a similar problem with innovation: it does not suffice to make an invention; it is also necessary to apply it in economic and financial terms for there to be innovation. This is a huge challenge for China today – not only to achieve scientific discoveries, but also to apply them in industry where they can be commercialized. As Gordon Zong, Managing Director of the Office of Technology Transfer at the Shanghai Institutes for Biological Sciences, explains:

> *Most Chinese domestic companies have the money now, but they don't have the interest to develop early-stage technology. I think the main reason is that they are still focused on a traditional business model. They don't understand modern high-tech or biotech business models where you*

develop technology to a certain stage, then sell it to a large company for future development and in the process create significant value based on having IP [intellectual property] coverage in major global markets. They only look at 'what kind of product can we sell, how much revenue can we generate right know?' ... [People in the companies] usually only know business but not science, or only science but not business and IP. (Quoted in Shih et al., 2012, p. 1)

Therefore, it does not come as a surprise that the World Bank and the Development Research Center of the State Council of the People's Republic of China (WB hereafter) dedicates, in its report China 2030, one full section to innovation: 'China's growth through technological convergence and innovation' (WB, 2013, pp. 155–216, with an overview on pp. 34–8).

As this short introduction shows, there are many good reasons for focusing on 'ethical innovation in business and the economy'. Creativity and innovation have been vital in the history of humankind in all spheres of life and pose unprecedented challenges today. Given the deep and far-reaching impact of business and economic affairs, a main test ground for ethical innovation lies in the economic sphere of life and calls for thoroughly new thinking in and of business and economic ethics that inspires and strengthens new practices in business and the economy.

In this chapter I would like to explicate some major perspectives of this book. First, the question of ethical innovation in business and the economy is placed in the contemporary context of globalization, sustainability, and financialization. Second, the concepts of business ethics, innovation, and creativity are discussed and clarified. Third, as the purpose of business and the economy is defined as the creation of wealth in a comprehensive sense, innovation gains a central role in business and the economy. Fourth, the chapter concludes with an overview of the book and a short introduction to the subsequent chapters.

1.2 THE CONTEMPORARY CONTEXT OF GLOBALIZATION, SUSTAINABILITY, AND FINANCIALIZATION FOR BUSINESS ETHICS AND ETHICAL INNOVATION

Globalization, sustainability, and financialization cover huge areas of issues that cannot be properly dealt with in this chapter. Given these constraints, some definitional clarifications may suffice and be related to the topic of this book.

1.2.1 Globalization

Globalization can be understood as a kind of international system in the making. It is: not simply a trend or a fad but is, rather, an international system … that has now replaced the old Cold War system, and … has its own rules and logic that today directly or indirectly influence the politics, environment, geopolitics and economics of virtually every country in the world. (Friedman, 2000, p. ix) It is characterized by an increasing interconnectedness of the world, due to the revolution of information technology, and an immense reduction in the cost of transportation and communication. This dynamic system in the making is about 'global transformations' in the plural, including political, cultural and environmental globalization, migration, and the expanding reach of organized violence (see Held et al., 1999; Held and McGrew, 2000, 2002). Moreover, one should add religion's growing influence in international politics (see Thomas, 2010).

In business and economic terms, the increasing interconnectedness of the world means expanding markets and division of labor, reminiscent of the emergence of the Industrial Revolution in Europe (as described by Landes above), but, of course, at a definitively global scale. Trade, investment, and the migration of people have dramatically increased, which forces all countries and businesses alike to face the challenges of globalization in ethical or unethical ways. Given the fact that there are winners and losers of (economic) globalization, how can countries make sure they are sufficiently innova- tive enough to win in this competition? Because there still exist 2.5 billion people living on less than $2 a day (or 43 percent of the world population in 2008; Enderle, 2014, p. 32), how can innovation contribute to help them move out of poverty? Or does innovation kill more jobs than it creates (perhaps in the wrong industry or wrong location)? Does it aggravate inequality of income and wealth? What kinds of innovative technology should be developed in order to solve pressing problems such as worldwide diseases, food and water insecurity, energy shortages, and so on? What are innovative ways to organize global supply chains that ensure human working conditions and safe products? What innovative global tax regimes are necessary in order to prevent tax avoidance schemes by transnational corporations? These and more questions – under the unavoidable pressure of globalization – raise not only many ethical challenges but also call for creative and innovative approaches and solutions.

1.2.2 Sustainability

As globalization is a main feature of our situation on planet Earth today, sustainability proposes to us the direction in which we ought to move. Although sustainability as a term has proliferated in many ways, I suggest that we stick to the definition of the World Commission on Environment and Development (WCED) in its report Our Common Future published in 1987. Sustainable development means ‘to meet the needs of the present without compromising the ability of the future generations to meet their own needs’ (WCED, 1987, p. 8). This definition adopts a long-term, intergenerational perspective and has been widely embraced not only by scientists and policy-makers but also by business and civil society. It overcomes the separation of environment and development concerns that characterized the public discussion before this groundbreaking report. It also provides the conceptual basis for the UN Conference on the Environment and Development 1992 in Rio de Janeiro that, in its Agenda 21, has called upon all countries, poor and rich, to commit themselves to sustainable development.

Sustainability in this comprehensive sense ‘recognizes and incorporates the social, economic, and ecological objectives of multi- generations’ (Prizzia, 2007, p. 20). This three-fold conception has also shaped the so-called Sustainability Reporting Guidelines launched in 1997 by the Global Reporting Initiative (see GRI, 1997–2015). They enable all organizations to measure and report their performance in three key areas: the economic, environmental, and social areas, recently supplemented by governance as a fourth key area. Again, at the UN Conference on Sustainable Development in 2012, the three-fold conception of sustainable development played a fundamental role and shaped the Rio+20 outcome document, The Future We Want (UNCSD, 2012). In the section ‘Our common vision’, the signatories renew their commitment ‘to ensuring the promotion of an economically, socially and environmentally sustainable future for our planet and for present and future generations’ (para. 1) and acknowledge ‘the need to further mainstream sustainable development at all levels, integrating economic, social and environmental aspects and recognizing their inter- linkages, so as to achieve sustainable development in all its dimensions’ (para. 3).

Based on this relatively well-established global goal of sustainability, what does innovation mean for 'sustainable' business ethics? It has to be squarely placed in a truly long-term horizon and account for the economic, social, and environmental dimensions. Innovation cannot be a short-lived fad, although it may develop only gradually. With the enormous challenge of climate change, environmental innovation deserves special emphasis. Nevertheless, economic and social innov- ations are essential as well because dealing with nature should not be detached from people living in society and pursuing economic activities.

1.2.3 Financialization

While the terms 'globalization' and 'sustainability' are fairly well estab lished and defined, the term 'financialization' is widely unknown. It is absent in most encyclopedic works on economics, money and finance and, when used, it can take on very different meanings. Kevin Phillips describes the financialization of the United States (1980–2000) as a process that substituted the securities sector for the banking sector as the linchpin of the overall financial sector. This allowed finance to make a mega-leap in economic importance (Phillips, 2002, pp. 138–47), leading to extremes of income and wealth polarization, a culture of money worship, and an overt philosophic embrace of speculation and wide-open markets (Phillips, 2009, p. 21). In Financialization and the World Economy, Gerald Epstein defines the term as 'the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies' (Epstein, 2005, p. 3). Greta Krippner presents systematic empirical evidence for the financialization of the US economy in the post-1970s period (Krippner, 2005).2

While these and other studies (Palley, 2007; Orhangazi, 2008) focus on macro- and microeconomic developments from a progressive angle, Paul Dembinski offers quite a different view that can be described as holistic and radical as well: financialization as a profound social transformation. Finance is understood as a kind of rationality that is incorporated in a pattern of behavior and becomes an organizing principle, leading to far-reaching psychological, social, economic, and political changes (Dembinski, 2009, pp. 5–6). Financialization has led to the almost total triumph of transactions over relationships; the ethos of efficiency has become the ultimate criterion of judgment; and, when dissociated from moral considerations, it has led to an increasingly brutal expression of greed (ibid., p. 168). Therefore, he states that it is imperative to 'reverse the financialization process and ensure that finance once again operates in the interests of human dignity and progress' (Observatoire de la Finance, 2015).3

These few remarks on financialization are only meant to point to the undeniable fact that financialization, in one form or another, has taken place and become a major challenge, along with globalization and sustainability. Therefore, the question of innovation in and of business ethics takes on particular importance in several respects. First, investment banks have created a host of new and highly complex financial products that are hardly understandable even by financial specialists. But in many cases, upon sober analysis, these products are new without adding economic value. They may help to make a lot of money in the short run, yet they fail to create wealth in a genuine sense. Second, the Wall Street business model has been transformed from financial services to proprietary trading (see Santoro and Strauss, 2013, Part II) and hailed as innovative. Irrespective of the final regulation by the so-called Volcker Rule (that is, the separation of commercial and investment banking), this business model is seriously challenged in how it produces more than an accumulation of financial assets and creates wealth in a comprehensive sense. Third, from a macro perspective, the role of the financial services industry in the economy and society can be questioned with good reason. 6

It is fair to say that this industry has gained a disproportionately large influence on the real economy, dominating rather than serving it. Not surprisingly, Christine Lagarde, Managing Director of the International Monetary Fund (IMF), has called upon the financial services industry to serve again the broader economy and society. So we may ask what ethical innovations in finance are necessary to achieve this goal.

1.3 CONCEPTUAL CLARIFICATIONS OF BUSINESS ETHICS, INNOVATION, AND CREATIVITY

Having highlighted the context of globalization, sustainability, and finan- cialization, I now turn to the main theme of the book and provide some conceptual clarifications that may help to situate the following chapters and encourage fruitful conversations.

1.3.1 Business Ethics

While the term 'business ethics' in English (and other languages as well) can carry multiple meanings, it is understood here in a comprehensive and differentiated sense, as it has evolved in recent years under the influence of globalization (see Enderle, 2003; Rossouw and Stückel- berger, 2011). Business ethics (or business and economic ethics) covers the whole sphere of economic life from the ethical perspective. Accordingly, its fundamental task is to enhance the ethical quality of decision- making and action at all levels of business: at the personal (micro), organizational (meso), and systemic (macro) levels. When facing com- plex issues, business ethics has to adopt a multilevel approach and account for the freedoms and constraints at each of these levels and, moreover, for the interrelationships between these levels. In addition to this three-level approach, business ethics as applied ethics has to deal with the relationship between ethics and its field of application. To capture this relationship, we propose adopting a two- legged approach that gives equal importance to the descriptive-explicative and the normative-ethical dimensions and strives to integrate them in a balanced way (see Enderle, 1999). Competencies in business and eco- nomics (and other fields) as well as in ethics are required. The two dimensions of the subject matter should be distinguished, but they should not be split into two separate realities as if business and economics were in one world and ethics in another. Given these fundamental distinctions, ethical innovation in business and the economy comprises the levels of individuals, organizations, and systems and includes both a descriptive-explicative and a normative- ethical dimension. Accordingly, several key aspects of ethical innovation in business and the economy are further explained.

1.3.2 Innovation, Invention, and Creativity

Innovation has become a catchword to attract a great deal of attention in business and economic policy and far beyond. It is praised as a key driver of increasing productivity and thus economic growth. Companies and countries that are in the forefront of innovation are said to win the race for global advantage. So what do we mean by innovation? There are multiple definitions of innovation that might be appropriate in accordance with specific contexts (see OECD, 2012 and 2013a). However, in the interest of meaningful communication, a commonly agreed understanding of key terms appears to be useful. Therefore, I propose a few conceptual clarifications. They mainly correspond with (although sometimes differ from) the extensive elaboration that George Brenkert undertakes in his chapter 'Business, Moral Innovation and Ethics' in this volume. In their excellent book, Innovation. A Very Short Introduction, the authors Mark Dodgson and David Gann define innovation as 'ideas, successfully applied in organizational outcomes and processes' (2010, p. 14). The authors focus on innovations other than those described as 'continuous improvement' that tend to be routine and highly incremental in nature. Their concern lies rather with ideas that stretch and challenge organizations as they attempt to survive and thrive. 'By concentrating on innovations beyond the ordinary that occur in both the outcome of organizational efforts and the processes that produce them, we capture a great degree of what is generally understood to be innovation' (p. 14). The wide range of phenomena that fit this definition is extensively discussed in this book and others.

This definition points to two components that characterize, in varying forms, many other definitions as well: innovation is the novel outcome of human intellect and the realization thereof in concrete matters. On the one hand, innovation originates from human thought and imagination, the search for and finding of ideas; on the other hand, it is about making the ideas work and applying them successfully to the material world. Imagination is crucial, but only as the first step. Successful application is the necessary second step. Therefore, innovation should not be equated with imagination and invention since innovation includes both thinking and doing. As mentioned, this crucial distinction has been emphasized by Landes with regard to the Industrial Revolution that happened in Europe.

The first component of 'ideas' (beyond the ordinary) points to human ingenuity driving individuals and teams (highlighted by Brenkert as well) and allows for a wide range of gradual to radical innovation (criticized by Brenkert). The second component (that is, 'realization in concrete matters') relates to doing, making, and behaving (like Brenkert) and the context or framework in which innovation appears (like Brenkert). But it also stresses the importance of successful application (rejected by Brenkert), meaning innovation made feasible in economic and financial terms. The electric car can serve as an example to illustrate the difference: as long as electric cars are so costly and inaccessible that only the wealthy can buy and use them, innovation has not yet 'created the market'.

Obviously, 'success' can be defined in different ways. A helpful economic distinction is proposed by Mezue et al. (2015) who identify three varieties: (1) 'sustaining innovation' – that helps to replace old products with new and better ones (which is, by nature, a substitutive process); (2) 'efficiency innovation' – that helps companies to produce more for less; (3) 'market-creating innovation' – that transforms products and services so costly and inaccessible that only the wealthy can buy and use them, into offerings cheap enough and accessible enough that they will reach an entirely new population of customers. This variety of innovation creates new growth and new jobs. Referring to the example of the electric car, it might have been a 'sustaining innovation' already in the 1970s (as Brenkert suggests); however, only at present might it become an 'efficiency innovation' and a 'market-creating innovation' (in other words, successful in the triple sense).

Innovation defined as the successful application of ideas or the accomplishment of a worthwhile objective (Dees et al., 2001, p. 162) implies an evaluation of what success or an accomplished worthwhile objective is. It involves certain norms and values, which might be ethical or unethical (a point strongly emphasized and developed by Brenkert). In other words, such ethical implication is unavoidable; it is not only about 'doing' but also about doing 'the right thing'. Admittedly, Dodgson and Gann do not elaborate the ethical dimension in their 'very short introduction' to innovation. But in the last chapter on building a smarter planet, they explicitly speak of greater ethical and responsible decision-making, sustainability, intuition and judgment, tolerance and responsibility, diversity of interests and cross-cultural sensitivities. It is no exaggeration to say that building a smarter planet implies building a more ethical one. Furthermore, as Dodgson and Gann emphasize, innovation (as process) is risky in multiple respects and leading to failure (Chapter 3) and fear. Numerous applications of ideas do not succeed, and change just for the sake of change is not the way to go. Nonetheless, the attitudes of 'curiosity', 'risk-taking', and 'joie de trouver' (see Landes, 1999), supported by an environment that provides free space, are essential for innovation. It goes without saying that, along with risk and uncertainty, the ethical assessment and guidance of innovation becomes even more challenging.

In line with the three-level conception of business ethics, Dodgson and Gann (2010, pp. 22 and 26) distinguish the level of individual innovators, entrepreneurs, and managers (for example, Thomas Edison); the level of business strategy for organizational innovation (for example, IBM); and the level of economics for national innovation performance (which should be supplemented by global innovation systems; see Atkinson and Ezell, 2010). It is noteworthy that each level has its particular challenges of complexity, predictability, and governance; and the more aggregate the level is, the more complex, the less predictable and the more difficult to govern the challenges it becomes (see the Level I, II, and III Technology in Allenby and Sarewitz, 2011).

In practical terms, one can distinguish seven forms of innovation situated mainly at the micro- and meso-levels (see Kickul and Lyons, 2012, pp. 45–6):
+ creating new products, services, programs or projects;
+ producing a new process or delivering an existing product, service, program or project (for example, Habitat for Humanity);
+ delivering an existing product, service, program or project to a new or previously underserved market (for example, Grameen Bank);
+ utilizing a new source of labor or other production input (for example, Greyston Bakery of Yonkers); + implementing a new organizational or industrial structure (for example, community development banks);
+ implementing new ways of engaging 'customers' or target beneficiaries;
+ utilizing new funding models.

To sum up, innovation consists of the following features. It means the successful application of ideas beyond the ordinary that can lead to gradual change or great disruption. It is about making something new that has ethical implications. It requires curiosity and a risk-taking attitude. It can occur at the individual, organizational, and/or systemic levels and take multiple forms of products, services, processes, business models, systemic disruptions, and other changes.

Innovation differs from imagination and invention by transforming new human thinking into new practical doing, making, and behaving. Innov- ation in business and the economy means to make things new and feasible in economic and financial terms, implying an ethical dimension. I propose defining creativity not merely as a cognitive activity like imagination and invention (as Kickul and Lyons, 2012 do). Rather, creating means making something new and better, thus holding thinking and doing together, although in a less specific way than innovation.

1.4 INNOVATION FOR WEALTH CREATION IN A COMPREHENSIVE SENSE

After elucidating the concepts of business ethics, innovation and creativity, the 'field of application' is outlined in a few strokes. How may we conceptualize 'business and the economy' and define its purpose with a focus on innovation and creativity? Drawing on several studies (Enderle, 2009, 2010, 2011, and 2013), I propose defining the purpose of business and the economy as the creation of wealth in a comprehensive sense and briefly explaining its main features. If understood in this sense, innovation plays a central role in this field of application.

First, we begin with concentrating on the meaning of the wealth of a single nation. When we ask for the 'wealth of a nation' it is difficult to deny that wealth should encompass both private and public goods. Thus two types of assets are involved: those that can be attributed to and controlled by individual actors, be they people, groups, or organizations, and those from which, in principle, no actor inside the nation can be excluded. Such 'public goods' are defined, in economics, by the charac- teristics of non-rival and non-exclusive consumption. They clearly have a material component, even though it might be difficult to put a price on them. For instance, we may consider as public goods natural resources in a country, basic security, an effectively functioning rule of law, a relatively corruption-free business environment, a business-supportive culture, a decent level of education and health care of citizens, amongst others, whereas the lack thereof can be called 'public bads'.

Ascertaining wealth in both private and public terms is necessary not only from a nation's perspective. It also matters for many other units of analysis, be they situated at the organizational, local, regional, inter-national, continental or global levels. The prosperity of cities and local communities depends on an appropriate combination of private and public wealth. Public goods are of increasing importance to and often the driving force for transnational regimes and institutions. Without the public good of a reasonably stable financial system, national and international finance cannot flourish and will falter. If climate change cannot be contained, large parts of the globe will be struck by environ- mental disasters.

Second, wealth is understood as the total amount of economically relevant private and public assets, including not only economic capital but also natural, human (in terms of health and education) and social capital (as in trust relations in Robert Putnam's sense). It is noteworthy that all four types of capital are essential and relate to the three dimensions of sustainability: the economic, social, and environmental. Moreover, 'economically relevant' means all types are necessary and instrumental for the creation of wealth. Of course, this does not imply that their intrinsic values are denied.

Third, the 'creation' of wealth is more than possessing or acquiring wealth and constitutes a special form of increasing wealth. As discussed in the previous section, to create is to make something new and better. So it does not suffice to make something new; it is also necessary to make it better in a qualitative sense, which, of course, can take multiple forms. I suggest, for the time being, using the characteristics of the patent to define what new and better is, namely to be novel, useful, and socially relevant. In addition, as Landes emphasizes, creating in business and economic life means turning inventions into innovations by making them feasible and successful in economic and financial terms.

Fourth, wealth creation is not a short-term affair, but evolves in a long-term horizon. It is 'sustainable' (as defined above), stretching over several generations and including an economic, a social, and an environmental dimension. It is proposed to substantiate the 'needs' of the present and future generations in terms of human capabilities or 'real freedoms that people enjoy' (Sen, 1999, p. 3; 2009, pp. 248–52). This intergenerational and three-dimensional meaning starkly contrasts with many notions of sustainability (for example, of profit) that ignore the three dimensions and focus only on the capacity of business to maintain its functioning over a longer period of time.

Fifth, it would be an all too common mistake to conceive the process of creation as merely a production process, followed by a process of distribution, according to the saying that 'one first has to bake the pie before one can divide it'. This view ignores the fact that production actually involves a distributive dimension, permeating all of its stages from the preconditions to the generation process, the outcome, and the use for and allocation within consumption and investment. In fact, the productive and distributive dimensions of wealth creation are intrinsically interrelated. This holds not only for the economy of a nation but also for economic organizations such as private companies. For instance, one might recall the different pay ratios between chief executives and common employees in various countries and their impact on the produc- tivity of the companies.

Sixth, an essential component of any economic system is its motivational structure. What motivates people, companies, and countries to engage in wealth creation? Common answers in the economic and sociological literature are self-interest, greed, the will to survive, the desire for power aggrandizement, the enjoyment of riches, and the glory, honor, and well-being of nations. However, these motivations, taken individually or in mixed combinations, are rarely related specifically to the creation of wealth, but instead drive economic activities in general and, most often, incite merely the acquisition and possession of wealth. When economic activities clearly focus on wealth creation, other motivations such as the entrepreneurial spirit, the desire to serve others, and the 'joie de trouver' (see Landes above) become more important. Generally speaking, self-regarding motivations may suffice to create private wealth. But the creation of public wealth needs other-regarding motivations. And if the wealth of a nation or another social entity is a combination of private and public wealth, a mix of self- and other-regarding motivations is necessary.

Seventh, wealth creation in this comprehensive sense has both material and spiritual aspects and is therefore a noble activity. For example, as the Grameen Bank can illustrate (see Enderle, 2004), providing poor women with fair micro-credits in order to become productive and move out of poverty is not a merely material and financial process, but, by strength- ening their self-confidence, has a spiritual aspect as well. Or, by offering sophisticated medical equipment to patients, Medtronic not only sells material products but strives to live up to its mission of 'alleviating pain, restoring health, and extending life', which clearly also includes a spiritual aspect (see Murphy and Enderle, 2003). In other words, wealth is not a merely material matter. Because it also comprehends human and social capital, wealth comprehends human beings and thus includes a spiritual aspect that is conceivable, of course, in many variations.

To conclude, in all these seven features of wealth creation, ethical innovation plays a crucial role. Innovation, for the better or worse, shapes the contents of wealth: economic as well as natural, human, and social capital. While it may contribute to growth by increasing productivity and enhancing competitiveness, it also matters for inclusive growth and development by bridging productivity gaps as well as benefiting and activating low- and middle-income groups. Ethical innovation proves its success in a long-term horizon that is sustainable and measurable in terms of human capabilities. It involves not only material and tech- nological but also spiritual and human aspects. It is truly making something new and better, driven by motivations that are other-regarding as well as self-regarding.

1.5 OVERVIEW AND INTRODUCTION TO THE SUBSEQUENT CHAPTERS

What has been explained in broad terms in the previous sections is now substantiated in many respects in the remainder of the book. The overview is structured in four parts. The first part provides some conceptual, theoretical, and methodological clarifications relevant for the three following parts that deal with ethical innovation at the individual (micro-), organizational (meso-) and systemic (macro-) levels. Underlying each part is the two-legged approach that balances the descriptive- explicative and normative dimensions of the subject matter, although articulated in different ways.

George Brenkert's contribution in Chapter 2 of Part I Conceptual, Theoretical, and Methodological Clarifications seeks to start a discussion about moral innovation itself, its role in business and how such innov- ations might be evaluated. His conceptual and theoretical clarifications provide a solid foundation for the theme of this book in general and for several chapters in particular (Chapters 4, 6, 7, 10, 12, 13, and 14). Despite the significance of innovation, he notices that the area of morality has been quarantined against any innovations. Yet moral innov- ation involves something distinctively new in that it alters how people believe and behave regarding some aspects of their lives. Brenkert explores fascinating perspectives of this woefully under-discussed topic in ethics as well as in business ethics. When facing complex ethical problems, assigning responsibility is a difficult undertaking with far-reaching consequences. If it were merely a matter of either taking individual responsibility or relying on institutions alone, shortcut solutions would be quickly at hand.

In Chapter 3, Thomas Beschorner and Martin Kolmar address this foundational issue by arguing for a multilevel approach that rejects this either/or thinking. They propose using an extended transaction cost approach (inspired by economics) in order to determine a fair sharing of moral responsibilities among indi- vidual and organizational actors and social institutions. As moral agency and institutions are interdependent – which is quite obvious from a dynamic perspective – they not only shape but also are shaped by each. This multilevel approach implies that governance is important at each level and requires coordination to address complex ethical prob- lems. It informs a useful space for bottom-up movements to be discussed in Chapters 6, 7, 10, 12, and 14.

While the previous two chapters deal with basic conceptual and theoretical problems, Chapter 4 by Christoph Luetge and Matthias Uhl focuses on an innovative methodology, that is, on an experimental approach to ethics. The contributions of experimental disciplines are particularly important if business ethics is to be understood as an interdisciplinary field that includes not only a normative-ethical but also a descriptive-explicative dimension. After a brief summary of experi- mental philosophy and experimental ethics with its philosophical precursors, the chapter explores future opportunities and key research questions of experimental ethics. Drawing on recent ethical experiments, it dis- cusses practical implications and possible types of criticisms. The second part of the book – Individual Initiatives for Ethical Innovations – presents three contributions on how individual actors (at the micro-level) can make ethical innovations.

In Chapter 5, Nien-hê Hsieh examines managerial responsibility and develops an alternative to shareholder primacy. He criticizes the view that defines the responsibil- ities of managers merely in terms of constraints or negative moral duties (for example, the duty not to harm). Rather, managers have the duty to do their jobs well, that is, to help realize important market-specific social values that are consistent with a minimal liberal set of normative commitments. These values ground managerial responsibility to pursue specific ends and define the purpose of business. To illustrate this novel account of managerial responsibility, Hsieh analyzes three examples regarding opportunities for health, strengthening institutions, and lobby- ing and political activity.

In Chapter 6, Joanne Ciulla compares the actions of ethically innova- tive leaders with drops of water in a pond. They often radiate out like ripples into larger spheres, from the personal, to the organizational, and finally to the systemic level. Recalling key notions in leadership studies such as vision, moral imagination, and ethics and effectiveness, she applies them to a timely challenge for business leaders, namely to pay their employees living wages (with a focus on the fast food and other industries). Ethically innovative leaders can fix this problem if they are willing to make waves by thinking of business as a means of improving the well-being of all stakeholders, including employees. The third contribution on individual initiatives for ethical innovation is Daryl Koehn's chapter (Chapter 7) on the Maker Movement, which consists of individuals who are consistently dedicated to making their own things by using advanced technology. They are manufacturing robots and cars and even producing designer E. coli bacteria. As noted in various chapters (particularly this present chapter, 2, 6, 13, and 14), innovation can be either ethical or unethical. Connected with the new developments in production and distribution of goods, there are numerous ethical upsides and equally numerous ethical downsides. The challenge for ethicists and practitioners is to realize the former while minimizing the latter.
Part III Toward Innovative and Ethical Organizations includes four contributions situated at the meso-level of analysis. In the wake of the global financial crisis and the Great Recession of 2008–11, the call for taming and reining in traditional joint stock companies has become particularly vigorous.

Eleanor O'Higgins in Chapter 8 addresses the question of whether cooperatives present a real alternative business model to traditional capitalist enterprises. After characterizing co- operatives with their benefits and challenges, she compares two case examples from the United Kingdom: the John Lewis Partnership (JLP) and the Co-operative Group. Her comparative analysis points to four crucial elements of good governance in cooperatives: member voice, representation, expertise, and management. Both successes and failures in these four elements are intertwined. In the case of JLP, this resulted in a virtuous cycle. By contrast, the Co-operative Group failed by adopting neither the model of the cooperative nor of the publicly listed corporation. She concludes by stating that a diverse array of co- operatives and other organizational forms will continue to exist side by side as ways to carry on value-adding economic activity.

While Ciulla discusses the business leaders' responsibility for paying people a living wage in low wage industries, Michael Santoro focuses in Chapter 9 on executive compensation in the financial industry. He highlights the important role of cash-based incentive compensation in the financial crisis, which contributed to the failure of many firms and the accumulation of trillions of dollars of systemic risk. A brief survey then recalls important legal and industry-related reforms of executive compen- sation that have been undertaken to date in the United States and Europe. By examining the infamous London Whale trade of JPMorgan Chase, Santoro demonstrates the need for innovative approaches to linking executive compensation more closely to risk management and concludes with suggesting a number of elements for an innovative compensation system.

In Chapter 10, Knut Ims and Laszlo Zsolnai broaden the perspective on innovative organizations from Western countries to South America, Egypt, and India. In critique of the so-called 'devil's doctrine' and the 'economic doctrine' they present and analyze successful 'social' innov- ations that not only serve the interest of commercial markets but also advance social development: the Economy of Communion experiment, the SEKEM experiment and the Aravind Eye Care System experiment. All three experiments distinguish themselves by their particular inspira- tion, vision, means, and outcome and therefore challenge the worldwide recognized business model of the 'bottom of the pyramid' approach by C.K. Prahalad (see Prahalad and Hart, 2002) – this challenge will be further articulated and addressed in Chapters 12, 13, and 14. The third part of the book concludes with Chapter 11 on corporate reporting by Antonio Tencati. Corporate performance has been conceptu- alized and measured in multiple forms that traditionally focus on financial and economic aspects while disregarding social, environmental, and governance aspects. Tencati presents and analyzes in detail major initiatives for sustainability evaluation and reporting. While acknowledg- ing their progress compared to mainstream reporting, he criticizes the fact that they do not clarify what is the (not only monetary) value provided by the firms to the different constituencies. Therefore, he proposes an innovative scheme for stakeholder-based and integrated reporting, the so-called Sustainability Evaluation and Reporting System (SERS2). In line with the three-level conception of business ethics, Part IV addresses 'Systemic Changes for Ethical Innovations' that concern capi- talism in the twenty-first century, a comprehensive marketing model for the poor, and an innovative approach to bridging the gap between the informal and formal economies.

Patricia Werhane and David Bevan in Chapter 12 take up the critical view of present day 'market capitalism' – already expressed in Chapters 7, 8, 9, and 10. They rectify the widely held misinterpretation of Adam Smith's understanding of free enterprise and demonstrate with numerous examples the flourishing drive of alter- native businesses in different parts of the world. This constructive trend from the bottom-up is articulated and exemplified also in other chapters, particularly in Chapters 3, 7, 10, 12, and 14.

While concrete examples of social innovation always contain descriptive and normative aspects, Chapter 13 by Gene Laczniak and Nicholas Santos proposes a normative-ethical model for marketing. It outlines what is owed to vulnerable, impoverished consumers when they enter into marketplace transactions with more powerful sellers. Needless to say, such a model is relevant for developing and developed countries alike. The authors identify, discuss, and justify five prescriptive com- ponents of the so-called 'integrative justice model': (1) authentic engagement without exploitative intent; (2) co-creation of value with customers (3) investment in future consumption; (4) genuine interest representation; and (5) focus on long-term profit management.

The concluding chapter by Peter John Opio opens up a widely ignored but hugely important new perspective on business and the economy as we normally understand them. His contribution is based on groundbreaking experiences in African countries and shows that innovation can – and often does – happen in informal firms and economies (arising, again, from the bottom-up). This innovation is vital for the survival of the poor – beyond an integrative justice approach of marketing. As with other innovations, however, it merits ethical scrutiny and examination. At the same time, it can inspire businesses in the formal economies to become more creative, which has been demonstrated by the outstanding examples of the Nigerian Nollywood film industry and the cellphone-based M-Pesa banking from Kenya.

1.6 CONCLUSION

Against the backdrop of globalization, sustainability, and financialization, the book opens up a wide range of perspectives. The introductory chapter has attempted to highlight a number of intriguing views and indicated multiple connections among the various chapters. For sure, many more perspectives and connections need to be explored and addressed. Ethical innovation in business and the economy is an enormous challenge today – truly a challenge that cannot be postponed.

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Abstract
The essay aims to show how business ethics—understood as a three-level approach—can strengthen the social cohesion of a society, which is jeopardized today in many ways. In the first part, the purpose of business and the economy is explained as the creation of wealth defined as a combination of private and public wealth that includes natural, economic, human, and social capital. Special emphasis is placed on the implications of the creation of public wealth which requires institutions other than the market and motivations other than self-regarding ones. In the second part, the question of what holds a society together is discussed through different approaches: enlightened self-interest, a new game-theoretical approach, and the concept of the common good advanced by Catholic Social Teaching, followed by my own proposal. The third part presents several perspectives for business ethics to strengthen social cohesion of a society (a) by focusing on the purpose of business and the economy to create natural, economic, human, and social capital; (b) by advancing public goods that stand the test of ethical scrutiny; and (c) by securing human rights conceptualized as public goods.

For the social cohesion of a society, the so-called "public goods" are of vital importance. This is the topic to be explored in this essay. The question about what holds a society together is, without any doubt, extraordinarily complex. It is posed with great urgency when we believe that social cohesion is jeopardized or even is in the process of falling apart. We can identify these crisis experiences at different social levels. In our city or community, we are perhaps incapable of fixing infrastructures which are falling into disrepair or overcoming extreme social inequalities. In our country, we are not able to secure a decent livelihood for ethnic and religious minorities. In the European Union, we cannot find a common ground to address the challenges of refugees from the Middle East. And worldwide the necessary cohesion is lacking for commitment to effective policies against the threat of climate change.

These examples illustrate with clarity that we are faced with a huge number of problems—political, economic, sociological, psychological, legal, moral, and others. They are connected to each other and can be found in many societies and on different levels—from the local to the global level.
The social cohesion of a society is a daunting problem of enormous complexity and significance. We do not have to be alarmist in order to realistically perceive and urgently warn about the endangerment to and crumbling of social cohesion. The problem is far more comprehensive than we could solve from a business ethics perspective. Nevertheless, within its limitations, business ethics is challenged to face this problem: How can it strengthen the social cohesion of a society?

To address this question, I begin with defining the key terms of social cohesion and business ethics in the following way. Social cohesion is understood—according to Dick Stanley—as "the willingness of members of a society to cooperate with each other in order to survive and prosper. Willingness to cooperate means they freely choose to form partnerships and to have a reasonable chance of realizing goals, because others are willing to cooperate and share the fruits of their endeavours equitably" (Stanley 2003, p. 5). This definition may suffice for time being and will be discussed later on in this essay.

The second term, business ethics, stands for business and economic ethics and is meant in a comprehensive and differentiated sense, as it has evolved in recent years under the influence of globalization. It covers the whole sphere of economic life from the ethical perspective and includes both the theoretical elucidation (academic discipline) and the practical implementation (sound practices of business at all levels). In line with Henk van Luijk's definition (van Luijk 1997, p. 1579) widely accepted by the European Business Ethics Network and beyond (Rossouw and Stückelberger 2011), the fundamental task of business ethics is to enhance the ethical quality of decision making and action at all levels of business: at the personal (micro-), organizational (meso-), and systemic (macro-) levels. When facing complex issues, business ethics has to adopt a multilevel approach and account for the freedoms and constraints at each of these levels as well as for the interrelationships between these levels.

With this clarification in mind, the essay proceeds in three steps. First, we focus on the purpose of business and the economy. I propose to define it as the creation of wealth in a comprehensive sense, combining private and public wealth and encompassing natural, economic, human, and social capital. Second, we widen our perspective to society at large and ask for an appropriate concept and foundation of social cohesion. Different approaches are discussed: enlightened self-interest, a new game-theoretical approach, and the concept of the common good advanced by Catholic Social Teaching, followed by my own approach that emphasizes the importance of public goods. Third, based on the understanding of wealth creation cited above, I offer three ways in which business ethics can strengthen the social cohesion of a society (a) by focusing on the purpose of business and the economy to create natural, economic, human, and social capital; (b) by advancing public goods that stand the test of ethical scrutiny; and (c) by securing human rights conceptualized as public goods.

The Purpose of Business and the Economy: The Creation of Wealth as a Combination of Private and Public Wealth

On facing the multiple challenges of globalization, financialization, and threatening environmental catastrophes, it is urgently necessary to ask about the purpose of business and the economy and to examine different notions of wealth. What is meant by wealth is often very simple—the equivalent of "a ton of money"—and the purpose of business and the economy is said to be "to make as much money as possible." Or the purpose is defined very vaguely—for example, as "creating value"—so that it is interpreted in multiple and contradictory ways. Therefore, it seems appropriate to investigate the questions of the purpose of business and the economy and the concept of wealth in both a critical and a constructive way.

The concept of wealth carries multifaceted meanings. As Robert Heilbroner (1987, p. 880) writes, "wealth is a fundamental concept in economics indeed, perhaps the conceptual starting point for the discipline. Despite its centrality, however, the concept of wealth has never been a matter of general consensus." Concerning the concept itself, it figures prominently in Adam Smith's book, An Inquiry into the Nature and Causes of the Wealth of Nations (1776/1976), but is conspicuously absent from Gunnar Myrdal's book, Asian Drama: An Inquiry Into the Poverty of Nations (1968) and is complemented with its opposite in David Landes's book, The Wealth and Poverty of Nations. Why Some Are So Rich and Some Are So Poor (1999).

In order to explore and examine the concepts of wealth, we first may concentrate on what is meant by the wealth of a single nation. What makes a country like Norway "a rich country"?1 Recent studies of the World Bank, the OECD and other institutions produced interesting results, which correct the common fixation on the Gross Domestic Product (GDP) as the decisive and often only indicator of the economic situation of a country. These publications develop a much richer and more realistic understanding of the wealth of a country (see World Bank 2006, 2011; Warsh 2006; Stiglitz et al. 2009; UNDP 2010; OECD 2013).

Drawing from this rich literature, a normative purpose of business is proposed and briefly characterized, while referring to an extensive discussion by the author in numerous articles (Enderle 2009, 2010, 2013, 2015a, b).

The Wealth of a Society is a Combination of Private and Public Wealth

When we undertake to define "the wealth of a nation," it is difficult to deny that wealth should encompass both private and public goods or assets, that is, endowments of two types: those that can be attributed to and controlled by individual actors, be they persons, groups, or organizations, and those from which no actor inside the nation can be excluded. In economic theory, "public goods" are defined with the characteristics of non-exclusivity and non-rivalry (see Musgrave 1958; Samuelson 1954, 1955). A classic example is national defense (in a democratic setting). When it is established, no one can be excluded from it. Moreover, one person can benefit from it without reducing the benefit of it for another person; in other words, the "consumption" or "enjoyment" of one person does not rival the "consumption" or "enjoyment" of another person. In contrast, a private good is characterized by the attributes of exclusivity and rivalry.

These two formal criteria of the public good apply also to a negative public good, or as it can be called "public bad."2 When a region is struck by an epidemic disease (like Ebola), no one can (in principle) be excluded, and the risk of infection for one inhabitant of that ravaged region does not reduce the risk of infection of another inhabitant. (On the contrary, it might even reinforce the risk for the other person).

Of course, this brief characterization of private and public goods needs more explication, which I will provide later on. At this point, it is important to understand that the wealth of a society, ranging from the local up to the global level, be conceived as a combination of private and public wealth—not just as an aggregation of private wealth. This means that the creation of private goods depends on the availability of public goods, and, in turn, the creation of public goods is dependent on the availability of private goods.

To illustrate this thesis, I would like to mention an example from China's recent history. When, in 1978 after the death of Mao Zedong, Deng Xiaoping launched the economic reform and opening-up of the country, the Chinese people were called upon "to jump into the sea" (xià hǎi), that is, to leave the security of state-owned enterprises and run the risk of opening and operating their own businesses. In the following decades, the introduction of the market economy has proven, by and large, to be very successful (which, of course, does not deny the downsides of this economic development). A decisive factor of success was the so-called "Deng Xiaoping effect" (Yasheng Huang). Although no well-established rule of law to protect private entrepreneurs existed, the Chinese trusted that Deng Xiaoping would not deceive them, but rather that he would acknowledge and support their efforts. Thus, it is fair to conclude that the existing public good of trust in Deng Xiaoping was a crucial factor of success for private entrepreneurial initiatives in China's economic reform.

On the other hand, it also holds true that the creation of public goods depends on the creation of private goods. It suffices to recall the multifaceted private contributions to the creation of public wealth, which are provided in business, education, research and development, arts, health care, in the form of taxes and in many other areas.

Hence, understanding the wealth of a society as a combination of private and public wealth, some basic assumptions are implied. I would like to highlight two assumptions with far-reaching implications. First, we know that the institution of the market is, by and large, pretty efficient in creating private goods—that is, after all, why Deng Xiaoping introduced a kind of market economy in China. We also know from economic theory that a market will fail in creating public goods. Although many public goods have a material side, it is extremely difficult, if not impossible, to put prices on them in order to make supply and demand function properly. As a consequence, other-than-market institutions are needed for the creation of public goods. It is well known that Elinor Ostrom developed other institutional forms in order to solve "the tragedy of the commons" (pointed out by Garrett Hardin in 1968), for which she received the Nobel Prize in Economic Sciences in 2009.

The second basic assumption implied in the thesis of the wealth of a society as a combination of private and public wealth concerns motivations: self-interest cannot but fail when it comes to the creation of public wealth. Why? Whoever is engaged in creating public goods cannot expect, realistically speaking, a reward equivalent to the time and effort put into such engagement. In many cases, one has to accept or at least put up with sacrifices in one form or another. Strictly guided by self-interest alone (as advocated, for example, by the Russian-American philosopher Ayn Rand3), one can support or tolerate the interests of other people only to the extent that they do not conflict with one's own interest. Therefore, in order to create public goods, another kind of motivation is necessary that takes the interests of other persons, groups, organizations, states, and other entities at least as seriously as one's own interest. As economic history shows, motivations can take a huge variety of forms such as selfless engagement for entrepreneurial success, love for the mother country, solidarity with the poor, and the fight for a lost cause. In each case, the other-regarding motivation transcends self-interest, be it for a good or for a bad cause. Therefore, other-regarding motivation is a necessary, though not a sufficient, reason for creating public goods, and ethical evaluation is still required for creating positive public goods. When global public goods or bads are at stake (like in the case of climate change), other-regarding motivations are especially difficult to mobilize. One may, therefore, expect the world's religions to help strengthen the motivations for (positive) global public goods (Enderle 2000).

The Wealth of a Society Encompasses Natural, Economic, Human, and Social Capital

After discussing the formal criteria of private and public goods, we now turn to the substantive determination of wealth. In doing so, I use some concepts of economic theory which may sound a bit strange to non-economists—concepts such as capital, consumption, investment, and opportunity costs. These concepts can help to capture complex problems more precisely without yielding to a kind of economic imperialism.

In line with the OECD report How's Life? 2013. Measuring Well-Being (2013), I propose to define the wealth of a society—for example, of a country—as the total amount of economically relevant private and public assets including natural capital, economic capital, human capital, and social capital. Natural capital consists of the natural resources minus environmental burdens. Economic capital is composed of "real" and financial capital. Human capital stands for human beings' health and education. Finally, social capital—as trust relations according to Robert Putnam—indicates the level of trust between human beings.

This definition of wealth (that is close to the meaning of well-being) involves important characteristics emphasized by the OECD report (2013) as well. First, not only economic capital but also natural, human, and social capital are of economic relevance. However, this does not mean that they are only important in economic terms; rather, they can be intrinsically valuable as well. Consequently, public goods can be relevant not only for wealth creation but also for other non-economic purposes.

Second, this definition of wealth includes human beings as well as things and environmental conditions which matter to human beings. Thus, it goes beyond the common, material definition of wealth by taking seriously "human capabilities" (according to Amartya Sen) and placing human well-being on the center stage. The definition differs, though, from the definition of human development by the United Nations Development Programme, which seems to identify the "real wealth of nations" only in human beings (and not also things and nature important for human beings). In a nutshell, the definition proposed here aims at taking seriously and expressing the bodiliness of human beings.

Third, as in the report of the Stiglitz-Sen-Fitoussi Commission (2009) and in the OECD report (2013), the concept of capital refers to stocks and flows, embracing not only economically relevant stocks of capital at a certain point in time but also changes of capital stocks over a certain period of time. In this way, one takes into account, for example, both wealth and income, and both stocks of natural resources and changes thereof.

As these conceptual considerations show, a thorough and well thought-out concept of wealth is of extraordinary significance. Some important aspects have been explained; others cannot be addressed in this essay, but are discussed elsewhere (see author's references). An especially intriguing topic for further exploration beyond this essay is the study of poverty and economic inequality in light of this comprehensive notion of private and public wealth.

Already in his day, Adam Smith saw in the creation of wealth the purpose of business and the economy. Today, we can define the purpose in significantly broader and richer terms. It goes without saying that only a minority of the population and only a few responsible leaders in science and politics probably share this notion. However, despite its significance, it should not be overvalued. It is always embedded in the societal context where other equally or even more important purposes matter: democratic control of power, responsible promotion of knowledge and arts, careful dealing with nature, and other purposes.

What Holds a Society Together?

Having determined more precisely the purpose of business and the economy as the creation of wealth, we now focus on the question how the social cohesion of a society can best be conceptualized. The question is not new; but in recent years it has solicited a great deal of discussion. This should not come as a surprise when we realize the enormous pressure of globalization on our societies and their pluralistic fragmentation. Early on, John Rawls urged, in A Theory of Justice (1971) and Political Liberalism (1993), that our pluralistic (democratic) societies needed an “overlapping consensus,” or a common ethical ground, if they were to be stable. The Institute for Social Ethics of the Swiss Federation of Protestant Churches celebrated its 25th anniversary in 1996 with a conference on “Social cohesion—Put into question” (Voyé et al. 1998). A few years ago, the Rottendorf Foundation at the Munich School of Philosophy of the Jesuits invited scholars to a symposium on “What holds a society together? The jeopardized dealing with pluralism” (Reder et al. 2013). And the new book by Christoph Luetge (2015) has the title Order Ethics or Moral Surplus. What Holds a Society Together?

There is a great variety of concepts related to social cohesion, particularly in the literature of sociology, while the term itself is much less frequently used in the literature of political philosophy and business ethics.7 The OECD report (2011) defines social cohesion in a very broad sense: “A society is ‘cohesive’ if it works towards the well-being of all its members, fights exclusion and marginalization, creates a sense of belonging, promotes trust, and offers its members the opportunity of upward social mobility” (OECD 2011, p. 51). Social cohesion consists of three different, equally important components: (a) social inclusion (measured by such aspects of social exclusion as poverty, inequality and social polarization); (b) social capital (combining measures of trust—interpersonal and societal—with various forms of civic engagement; and (c) social mobility (measuring the degree to which people can or believe they can change their position in society). Influenced by numerous reports of international organizations, this definition, while rather comprehensive, in my view, lacks precision and consistency.

Dick Stanley presents a fine and differentiated discussion of the concept and model of social cohesion as it has unfolded in the Canadian government’s Social Cohesion Research Network:

Social cohesion is defined as the willingness of members of a society to cooperate with each other in order to survive and prosper. Willingness to cooperate means they bqfreely choose to form partnerships and to have a reasonable chance of realizing goals, because others are willing to cooperate and share the fruits of their endeavours equitably. (Stanley 2003, p. 5)

This concept contains three key components. First, the willingness and capacity of people to cooperate with each other in the diversity of collective enterprises that members of a society must do in order to survive and prosper. It also implies a willingness on the part of partners to share the fruits of their cooperation fairly. As cooperation takes place at all levels of social activity, social cohesion is the sum over a population of individuals’ willingness to cooperate. Second, social cohesion should not be confused with social order, common values, or communities of interpretation because they can also be achieved in an authoritarian society or a beleaguered community through coercion and exclusion, out of fear or hatred without free choice of the members. Third, there is an affinity between social cohesion and liberal social values such as freedom, equality, tolerance, respect for diversity, and human rights. Social cohesion guided by liberal social values engenders fair social outcomes, which, in turn, strengthens social cohesion.

This concept of social cohesion appears to be particularly appropriate from the perspective of business ethics and moral responsibility. According to De George (2010, chapter 6), acting in a morally responsible manner means to be capable of acting (causing the result of action) and to do it knowingly and willingly; in other words, it means not to be forced to do it, to have a choice, to know what one is doing, and to do it deliberately.

Based on Stanley's concept of social cohesion, we now discuss different approaches of its foundation. The first approach deals with the individualistic model of the neoclassical economic theory that is also used in the so-called order ethics. The second, game-theoretical approach goes beyond the neoclassical model and opens up promising new perspectives, which can rectify the weaknesses of the individualistic model. The third approach portrays the concept of the common good advanced by Catholic Social Teaching. Finally, I explain more extensively why public goods are of decisive importance for the social cohesion of a society.

Is Enlightened Self-interest on Its Own a Solid Foundation?

In the neoclassical economic theory, rationality and the motivation for economic activities are characterized with the notions of the "homo oeconomicus" and its intellectual descendant "REMM" (resourceful, evaluative, maximizing man) (Kaufmann 1988, pp. 244 ff.; see also Luetge 2013, pp. 251–335). The economic actors (households, firms) act rationally if they maximize their own utility or profit, respectively. This concept of rationality is based on action theory by focusing on various options for action, while the conditions of actions are assumed to be relatively stable. It presupposes methodological individualism that traces all actions back to individual decisions (of households and firms). As Franz-Xavier Kaufmann writes in the Handwörterbuch der Wirtschaftswissenschaften (HdWW), the homo oeconomicus can take three different meanings: (1) It is a real-typical reconstruction of empirical economic behavior. (2) It defines the norm of rational economic behavior. (3) It is the analytical starting point for decision-theoretical calculations.

Accordingly, the critique of the homo oeconomicus can be threefold: (1) The concept is a bad real-typical reconstruction and can be refuted in multiple ways (which has been undertaken by behavioral economics). (2) The norm is questionable because it can hardly be justified by reasoning. (3) The analytical method is of little explicative value.

In addition to these criticisms, methodological individualism can be put into question because the relevance of collective actors is left out of account or even contested. The action-theoretical approach has difficulty capturing clearly the changing conditions of action. The time horizon in which the maximization has to take place is difficult to determine. Finally, the aggregation of the utilities of individual actors to a "social welfare function" is practically not possible, as many years ago Kenneth Arrow demonstrated in his famous book Social Choice and Individual Values (Arrow 1951/1963).

Despite all these problems, it is astonishing how much the homo oeconomicus has not only survived but even flourished in economic sciences and beyond. How can this construct—in spite of all this questionableness—provide a solid foundation that holds a society together?

A partial rescue attempt of the homo oeconomicus has been undertaken by Karl Homann and recently by Luetge (2015). They acknowledge the criticism that the homo oeconomicus fails if it is understood in the real-typical and normative sense (points 1 and 2). However, they maintain that this construct is appropriate and can be useful for analyzing certain problems (point 3). Luetge advocates the thesis that the homo oeconomicus provides a solid foundation for addressing the problem of a basic order of society, that is, an "order ethics." The attitudes and behaviors guided by enlightened self-interest would indeed hold a society together in the global and pluralistic context (Luetge 2015, especially pp. 176–177).

Luetge develops his provocative thesis in careful steps and in discussions with a number of noted philosophers. Unfortunately, I cannot present my comment here; but, at least, I would like to briefly indicate my criticism, which primarily presents two reasons that speak against his thesis. First, methodological individualism is based on an individualistic and western anthropology, which does not take collective phenomena seriously in an adequate manner. Second, this approach fails when we consider the kind of goods that are at stake. Social cohesion of a society is a central public good. Therefore, its creation and maintenance cannot be motivated—as explained above—by mere self-interest, even if it is enlightened. Required are also other-regarding motivations, which take seriously the interests of the society as a whole.

In order to overcome the approach based on self-interest alone, Juljan Krause and Markus Scholz propose a team-oriented model rooted in game theory (Krause and Scholz 2016). The game-theoretical model aims at capturing the key problems in negotiations among many stakeholders for common, above all, global standards. The actors can switch between two types of reasoning—the I-modus and the We-modus. The kind of agreement is influenced by the extent to which the actors are willing to argue from the standpoint of the group. In my view, this model presents a promising approach for better understanding of the creation of public goods.

How Solid is the Concept of the Common Good in Catholic Social Teaching?

The common good is a key concept in Catholic Social Teaching and involves various connotations. An important definition can be found in the Pastoral Constitution on the Church in the Modern World "Gaudium et Spes" (1965, no. 26):

[The common good] is the sum of those conditions of social life which allow social groups and their individual members relatively thorough and ready access to their own fulfillment … [T]oday [it] takes on an increasingly universal complexion and consequently bqinvolves rights and duties with respect to the whole human race. Every social group must take account of the needs and legitimate aspirations of other groups, and even of the general welfare of the entire human family.

Four aspects of this definition deserve to be emphasized particularly: First, the common good pertains to the conditions of social (or societal) life, not to the substantive goal of all people in society (described in German as "Gemeingut"). Therefore, the common good is an instrumental value ("Dienstwert"), not an intrinsic value ("Selbstwert") (see Brieskorn 2010, p. 157). Second, these conditions are necessary for both social groups and their individual members in order to achieve their respective life plans ("their own fulfillment"). Third, the common good encompasses the totality of those social conditions. Fourth, because of globalization (i.e., the increasingly close interdependence worldwide), all these conditions concern all humankind.

How are these social conditions defined in substantive terms? Based on the encyclical Pacem in Terris (1963) by John XXIII and confirmed by the Second Vatican Council, these conditions encompass all human rights as promulgated in the Universal Declaration of Human Rights in 1948 and specified in the International Covenants and Conventions of the United Nations. With unequivocal clarity, Catholic Social Teaching today affirms the totality of human rights as defined above, although many Catholics and people outside the Catholic church are not aware of this fact or do not want to note or live up to it.

Given this concept of the common good, we now ask what it implies for our question regarding the social cohesion of a society. In contrast to the anthropological assumption of the homo oeconomicus, Catholic Social Teaching makes the assumption that humans are relational beings. Relations to other human beings are constitutive for the identity of the person, prominently asserted by the Pastoral Constitution Gaudium et Spes (No. 12): "[For] by his innermost nature man is a social being, and unless he relates himself to others he can neither live nor develop his potential." This basic anthropological assumption forms the foundation for social cohesion of any society and excludes both individualistic and collectivistic conceptions. Therefore, motivations exclusively driven by self-interest, even if it is enlightened, are incompatible with the relationality of human beings. It goes without saying that people can and often do act by disregarding or violating their relationality.

As stated above, the common good defines the conditions under which social groups and their individual members should be able to pursue their life plans. They hold for every society from the local to the global level and consist, to a significant extent, of human rights. Having said this, still two important questions remain: First, to be more precise, what kinds of society do we have in mind? And second, of what kinds of goods are these conditions composed?

As one may suspect, I propose to conceptualize the social conditions as combinations of private and public goods. Having done so, it will be easier to determine more precisely the society or the societies to be considered.

The Creation and Maintenance of Public Goods Provide a Solid Foundation for the Social Cohesion of a Society

As explained above, public goods are defined with the characteristics of non-exclusivity and non-rivalry. In order to create and maintain them, collective actors are necessary, who are guided by motivations that take the interests of other persons and social actors seriously at least to the extent that they account for their own interests.

At this point, some further clarification of the concept of public goods is in order. In particular, I mention three aspects: First, while private and public goods can be distinguished with great clarity thanks to the characteristics of non-exclusivity and non-rivalry, many mixed forms can occur between these two poles—according to the degrees of exclusivity and rivalry. To illustrate, the software program may be of minimal rivalry because its use by one engineer hardly affects the program when used by another engineer. However, the legal protection of intellectual property prevents outsiders from using the program. Another example is "the tragedy of the commons": If no cattle are excluded from grazing on the commons, a large number of cattle may ruin the pasture despite the small rival consumption of each individual cow.

Second, there exists a large variety of public goods which are not limited to given political, social, cultural, or other boundaries. For example, the impact of a nuclear power plant situated at a national border reaches far into the neighboring country. The criterion of the extension of a public good is the extension of its impact on people and nature.

Third, the formal definition of the public good implies that it can be "good" (positive) or "bad" (negative).8 To illustrate, a stable, efficient, fair, and reliable financial system is valued as positive, while an unstable, inefficient, unfair, and unreliable system is considered a "public bad." This dual-sidedness of public goods, which, of course is often not so straightforward, prompts or even forces those affected by the public good/bad (or the representative of those affected) to take a stand and make a decision—figuratively speaking, because they are sitting in the same boat. Not only the benefits of a positive public good but also its opportunity costs must be taken into account. This dual-sidedness is a challenge and an opportunity to strengthen the social cohesion of a society with the help of providing public goods and preventing public bads. An interesting perspective for further research is the question how Catholic Social Teaching with its principles of solidarity and subsidiarity can provide valuable guidance for identifying and addressing issues of public goods.

How Business Ethics Can Strengthen the Social Cohesion of a Society

After considering the purpose of business and the economy and the significance of public goods for wealth creation, the answer to the initial question of this essay unsurprisingly arises—at least in brief outline and with conceptual clarification. The most important answer, of course, must be given in practice.

We have defined the purpose of business and the economy as the creation of wealth in a comprehensive sense. It encompasses all economically relevant private and public assets including natural, economic, human, and social capital. It is, therefore, by far more substantive than the maximization of profit and much more precise than the so-called "creation of values." The significance of public goods for public wealth has been particularly highlighted because, in our public debates today, the comprehension of these truly public affairs is getting lost, which threatens and undermines the social cohesion of societies. This dangerous development is especially threatening given the enormous challenges of globalization.

Business ethics, however, while exposed to these challenges, is not without help. It can strengthen the social cohesion of a society from the local to the global level in multiple ways. I identify the following three sets of opportunities and tasks: regarding the substantive notion of wealth, the formal concept of public wealth, and the comprehension of human rights as public goods.9

Creating Natural, Economic, Human, and Social Capital

As the OECD report on well-being (2013) explains, the sustainability of well-being over time requires preserving all four types of capital while taking into account the distribution of these capitals among the population. Business ethics should take inspiration from this valuable framework, persistently raising the question of the purpose of business and the economy in economic sciences as well as in business and economic practice and offering well thought-out answers at all levels of action: at the individual, organizational, and systemic levels. At stake is the "creation" of wealth, which means making something new and better—in other words, it is about "ethical innovation in business and the economy" (see Enderle and Murphy 2016). More specifically, ethical innovation pertains to each type of capital:

The creation of natural capital—consuming less natural resources and burdening less of the environment—has to be taken seriously, with great consistency at the level of individual actors such as consumers; at the level of enterprises, investment firms, and consumer organizations; and at the systemic level where, driven by a culture of sustainability, environmental laws and regulations are to be set up and implemented.

The creation of economic capital requires—among many other challenges—the reintegration of the financial services sector into the real economy in order to play (again) a serving role in the creation of wealth in a comprehensive sense.

As for the creation of human capital, the health care and the educational systems should not be considered to be primarily huge national expenditures. Rather, they should be treated as efficient investments in people for the enhancement of their health and education.

Creating social capital means strengthening and expanding trust in interpersonal relations through honest business behavior, which, at the same time, needs to be secured by fair and efficient institutions.

Fostering the Comprehension of Public Wealth

Business ethics should systematically develop and explain the central importance of public wealth and demonstrate its relevance for the creation of natural, economic, human, and social capital.

The concept of public goods should be clarified and deepened for a better understanding of public wealth. The structural presuppositions and consequences implied in this concept are to be openly explored and explained. The institutions and motivations necessary for the creation of public goods deserve extensive discussion.

Because the definition of public goods is of a formal nature—defined by non-exclusivity and non-rivalry—ethical evaluation is indispensable. "Good" and "bad" public goods should be distinguishable.

Because wealth of a society is conceived as a combination of private and public wealth, it is crucial to understand their mutual dependence and to strike a reasonable balance between both. The potential and the limitations of both basic institutions need to be clarified and examined of the market required for the creation of private wealth and of the collective actors necessary for the creation of public wealth—ranging from the local to the global level.

Conceptualizing and Securing Human Rights as Public Goods

In order to strengthen the social cohesion of a society, business ethics, generally speaking, is called to help create wealth in a comprehensive sense while particularly advancing public wealth. More specifically, I propose to conceptualize human rights as "good"—ethically binding—public goods.

The special focus on human rights is suggested for several reasons. In the process of globalization, economies and businesses have expanded far beyond national borders and increasingly been connected both internationally and globally. Through this process, the realm of not only private but also public goods has been enlarged dramatically. With this expansion comes a growing need for universal normative standards for businesses and economies. Since the Universal Declaration of Human Rights in 1948, the ethical (and legal) framework of human rights has developed to a widely accepted, though not undisputed, universal ethical framework that has no comparable alternatives. Moreover, in the new millennium, the global concern for business and human rights has considerably strengthened.

With the United Nations Framework and its Guiding Principles for business and human rights, developed under the leadership of John Ruggie from 2005 to 2011, human rights have become a clearly defined global standard for corporate responsibility, that is, for business ethics at the organizational level. (Of course, this does not exempt states and other actors at different levels from their respective responsibilities.) Based on numerous international covenants and conventions supported through many worldwide consultations by the Ruggie team with businesses, civil society organizations, other organizations and experts from many fields, 30 human rights have been identified as relevant for business (UN 2008): civil, political, economic, social, and cultural rights, including the right to development. In 2011, the United Nations released the UN Guiding Principles for Business and Human Rights (UN 2011), which since seem to have gathered increasing momentum. These developments and their recent impact are reported in the excellent account in Ruggie's book, Just Business (2013).

My proposal is to conceptualize these 30 human rights as "good" public goods, which, after the considerations presented in this essay, might be rather easy. Non-exclusivity means that no single human being should be excluded from any human right. In other words, all human beings should be able to enjoy all human rights. Non-rivalry implies that the enjoyment of any human right by one person should not diminish the enjoyment of this right by another person and that the enjoyment of different human rights should not compete with each other. In other words, no trade-offs between human rights are acceptable. For example, the right to political participation should not impair the right to freedom of thought, conscience, and religion, nor vice versa; or the freedom of association should not negatively affect the right to non-discrimination, nor vice versa.

Beyond the exclusion of negative impact, one can argue that the enjoyment of any human right by oneself or any person may be independent from the enjoyment of other rights. For example, the right to freedom of movement may not affect the right to freedom from torture. Furthermore, the enjoyment of one right may even reinforce the enjoyment of another right. For instance, the right to an adequate standard of living (including food, clothing, housing, and a minimal income) and the rights to work and education can strengthen each other.

The definition of human rights as ethically demanded public goods obviously has far-reaching implications for the states and intergovernmental organizations because collective actions at multiple levels are required (which is a broad topic area beyond the scope of this essay). For now, three implications are briefly outlined that pertain to "corporate responsibility" as defined by the UN Guiding Principles.10 First, transnational corporations and other business enterprises are "responsible to respect human rights" and to help "remedy human rights violations," but not "to protect human rights" which is the "duty" of states. In other words, corporations have to contribute to this kind of public goods, in addition to producing private goods. Second, contributing to public goods necessitates a motivation that transcends the self-interest of corporations and includes other-regarding motives. There is no pre-established harmony that would coordinate exclusively self-regarding behaviors in order to produce public goods in general and the respect for human rights in particular (see the critique of enlightened self-interest above and Greenspan's admission in note 3). Third, contributing to public goods is not just a kind of "charitable donation" (or a "supererogatory" work) to society. Rather, a certain set of public goods (such as the rule of law and human rights, social customs, technological knowledge, educational skills, and health conditions) are actually preconditions to producing private goods. Therefore, corporations have a moral obligation to recognize these inputs from society and to "give back to society" their due shares, including respecting human rights and remedying human rights violations. In such a way, the understanding of the wealth of a society as a combination of private and public wealth can clarify and reinforce corporate responsibility for human rights.

The social cohesion of our societies is threatened in multiple ways and at different levels, from the local to the global level. In this essay, I have attempted to show how business ethics can make an important, though limited, contribution to address this challenge. The old, but not less crucial question of the purpose of business and the economy can find a new and rich answer that proposes the creation of wealth in a comprehensive sense, including natural, economic, human, and social capital and advances particularly public wealth. Different approaches of what holds a society together are discussed: enlightened self-interest, a new game-theoretical approach, and the concept of the common good advocated by Catholic Social Teaching. My own proposal is that the creation and maintenance of public goods provide a solid foundation for the social cohesion of a society. Guided by the purpose of wealth creation and the importance of public goods, business ethics can unfold a whole program of exciting perspectives to strengthen social cohesion by creating wealth in this comprehensive sense with a special focus on public wealth. As a more concrete and clearly defined normative ethical task, I conclude by conceptualizing human rights as public goods. Indeed, business ethics is facing very new and exciting challenges.

Title: Behavioral Ethics, Behavioral Compliance
Author: Donald Langevoort
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Date: 2015

It's entirely plausible to use the economist's assumption of rational choice—opportunism with guile—in making these predictions. But the realism of that assumption has been under attack for decades now, even though it still offers appealing methodological traction. Psychologists assure us that people cheat less than they could, even when assured of a gain. But they cheat more than they should, for reasons that are a complex mix of dispositions, cognitive frames and situational influences. Sociologists, in turn, urge that we look outside the individual mind for what drives compliance or noncompliance with law, to a variety of cultural forces. All of this makes compliance-related predictions much more contingent and messy, especially since there is no simple model to invoke and the research very much a work in progress.
[..]

I confess some pessimism that entrenched incentive structures will ever make compliance a priority in settings that are perceived internally as hypercompetitive, or that there is a particularly productive way to do this by external regulatory fiat. The genetic structure of firms seems to understand that survival and success come first, and that optimal compliance is about the organization's taste for risk. Given what we said earlier about biases that promote competitiveness, both regulation and compliance will usually be chasing the greased pig from behind (Langevoort, forthcoming).

That goes for human resources as well. It's probably right that good compliance is heavily influenced by who gets hired and who gets promoted. And it's self-evident that most competitive firms don't hire at seminaries or schools of social work in order to seek out the most ethically sensitive. Nor do they seek out sociopaths, of course. But how many consider the compliance implications of hiring practices that, say, seek out college-level athletes or fraternity/sorority presidents? That may seem merit-based and innocent enough, and probably not a bad heuristic in predicting employment success. But the firm is also raising its aggregate testosterone level, plus whatever other traits correlate with such resumes. Researchers have noted how sought-after characteristics in the business world like energy, self-confidence, the need for achievement and independence, can have evil twin pairings: aggressiveness, narcissism, ruthlessness and irresponsibility (Miller, 2015).

Title: Ethics versus Ethos in US and UK megabanking
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Date: July 11, 2016

ABSTRACT
Company law in the US and UK fails to acknowledge that authorities' propensity to rescue giant banks from the consequences of insolvency assigns taxpayers a coerced and badly structured equity stake in too-big-to-fail institutions. The entrenched managerial norm of maximizing stockholder value lends a misplaced legitimacy to efforts by TBTF managers to take on dangerous levels of tail risk because their bank's deep downside is effectively eliminated by the prospect of unlimited taxpayer support. Conventional tools of prudential regulation constrain but do not de-legitimate this behavior. To accomplish that end, this paper calls for: (1) a formal recognition of the fiduciary duties that TBTF firms owe to taxpayers and (2) criminalizing aggressive pursuit of safety-net subsidies as "theft by safety net."

In banking, professional standards of conduct derive less from fundamental moral principles (i.e., individual ethics) than from the pragmatic character of slowly evolving norms of banking and regulatory cultures (Kane, 2016). Realistically, the world's top bankers wrestle every day with three practical issues that leave little or no room for high-minded concepts of right and wrong: 1. What is profitable for our firm to do? 2. What will our regulators let us get away with? 3. How can we defend and expand these profit-making opportunities?

This paper argues that each of these questions can be improved by replacing the first verb by the word "should:"
1. What should our firm do?
2. What should our regulators let us get away with?
3. How should we defend and expand our profit-making opportunities?
Using "should" in its dutiful sense moves us from the theorem-rich realm of positive economics to the mushy sphere of normative analysis. My justification for doing this is to improve our understanding of why financial crises have become increasingly deep and widespread during the last 50 years.

The gentlest way to express the explanation I put forward is to say that, especially at megabanks, bank managers have been allowed to violate repeatedly two duties they owe the citizenry at large. The first comes from the Kantian imperative against using others (here, taxpayers) only as a means. The second is to use their knowledge, skill, and experience to fulfill what Vanderheiden (2016) would call their "obligation to know" and to guard against the consequences of reckless actions. Finally, regulators' propensity to rescue insolvent megabankers and their creditors has lessened their incentive to perform these duties by relieving them from suffering the consequences of their recklessness in full. These overlapping moral weaknesses in megabank and regulatory culture support patterns of risk taking that this paper characterizes as a series of criminalizable "thefts by safety net."

What Should Regulators Allow Megabanks to Get Away With?

It is convenient to take up the second question first and to begin our inquiry by identifying similarities and differences in how US and UK regulators initially and subsequently responded to the most recent crisis. In the US and Europe today, prudential regulators have blamed the Great Financial Crisis on the reckless pursuit of profit opportunities at the world's leading banks (Binham, 2015).

We now know that many of the riskiest ventures were concealed from regulators by layering them through nonbank affiliates and complicated contracting 3 structures. In the US, the Dodd-Frank Act of 2010 hopes to correct this by using federal regulators' rule-making and supervisory authority to clawback managerial bonuses at failed banks and to force major financial firms to maintain stronger, more-transparent and moreresolvable balance sheets. But in the UK, concerns about banker recklessness led Parliament and the Financial Conduct Authority (FCA) to move simultaneously in a normative direction as well. UK law first outlawed endgame gambles fueled with creditors' money 30 years ago (see Halliday and Carruthers, 1996; Brown 2010), although the focus was not then on banks. For corporations generally, the Insolvency Act of 1986 defined crimes of "fraudulent" and "wrongful" insolvent trading. Directors who knew or should have known that their zombie firm is insolvent and add to the debts of their company anyway can be made personally liable for company debts and disqualified from serving as a director of other UK corporations for a number of years. The purpose of the law is to encourage directors to enter into a creditor-liquidator agreement that would prioritize the interests of creditors and the creditors' guarantors.

The Financial Services (Banking Reform) Act of 2013 similarly defined a new criminal offense, that of reckless misconduct leading to the insolvency of a bank, and set a relaxed burden of proof for this crime that would have required senior bankers to prove that they took every reasonable step to prevent regulatory breaches in their areas of responsibility. Although the relaxed burden of proof was shelved before it could take effect, members of the Senior Management Regime at a bank that has been declared insolvent can still be found guilty of this offense if regulators can prove that the defendant was responsible for a material breach of FCA rules. The penalty for the crime is a substantial fine and up to 7 years in prison.

At the same time, the FCA started a thorough review (since abandoned) of post-crisis changes in banking culture, pay, and practices, looking to impose a more socially responsible ethos on bankers. Presumably, the new ethos would have improved corporate governance in banks by expanding the roles of officers in charge of risk management and regulatory compliance and subjecting them to stiff penalties for unruly behavior. In both countries, megabank lobbyists pushed back with self-serving narratives that characterized post-crisis rule making as over-regulation and claimed considerable social value for minor changes in corporate governance and risk management practices that the industry has seen fit to adopt on its own (e.g., Waxman, 2016). The industry narrative characterizes government efforts to improve post-crisis standards of banking conduct –not in ethical terms— but as vindictive "bank bashing."

Everyone agrees that the bursting of twin bubbles in housing prices and securitization activity triggered sharp declines in asset prices that resulted in the Great Financial Crisis. But in the industry narrative, supervisory weaknesses exploited by a few bad apples–not an industrywide exploitation of ethically abusive regulatory loopholes—generated these bubbles. Megabankers see proposed corporate-governance reforms less as a conscientious effort by government officials to reduce both the frequency of future crises and the harm they exact, and more as a weaselly attempt to exculpate the government sector from blame that it deserves for not perceiving in timely fashion a pre-crisis breakdown in its efforts to contain potentially ruinous forms of risk-taking, especially in innovative mortgages, securitization structures and various derivatives markets.

This recap of postcrisis reform and industry resistance suggests that modern bankers and regulators are locked in a cat-and-mouse game in which they use their very different resources in an unequal struggle to bend the opponent to their will. In this game, megabank cats do not want to eat the mouse. They want to get subsidies to tail risk that the underpowered mouse is supposed to be guarding. The intensity of this struggle leaves both sides not merely uninterested in ethical principles, but as a form of "motivated ignorance," unable to acknowledge that government safety nets have turned taxpayers into unfairly compensated equity investors of last resort.

Despite the reckless way that many bank managers conducted themselves in the previous boom, as the dust from the crisis has settled, industry lobbyists have bullied political leaders in both countries into letting the industry set the dialectic's next round of ethical codes and approved practices more or less by and for itself. To protect future taxpayers, this paper argues that government officials and megabank managers each have an obligation to understand how safety net guarantees and gaps in supervision have been abused in the past and to guard against future abuse. This means that they "should" work together in some kind of task force to craft interlocking moral standards for both sectors. But current corporate law and its outmoded embrace of stockholder primacy gives neither side an incentive to do this. Nor does it offer an adequate conceptual platform for reframing these standards.

This paper explains that in too-big-to-fail institutions, stockholders and taxpayers have morally equivalent equity claims on current and future earnings. To establish the incentives and platforms needed to balance these claims, company law must be amended to recognize that the safety net makes taxpayers equity investors of last resort. The last part of the paper sketches a framework for establishing enforceable fiduciary obligations from bank managers to taxpayers whose express purpose would be to see that taxpayers' equity stake is safeguarded from abuse by measuring it appropriately, servicing it fairly, and treating faithless behavior by individual megabankers as a serious crime.

Importance of The Dunning-Kruger Effect

Banker aggressiveness and financial crises are in part a people problem (Hagendorff, Saunders, Steffen, and Vallascas, 2016). Far from being paragons of virtue, megabank managers often display vindictive personalities, difficulty in grasping their particular limitations, and a fascination with getting very, very rich (Flood, 2016; Ho, 2009). Confidence in the banking industry's ability to deal with issues of conduct and practices in a self-regulatory manner strikes me as a glaring instance of the Dunning-Kruger effect (Dunning, Johnson, Ehrlinger and Kruger, 2003). The D-K effect is a cognitive bias that leads unskilled persons to believe that their ability and job performance are dramatically better than they are. Dunning and Kruger hypothesized and (with various co-researchers) have confirmed that, for a given skill, poorly performing people will fail to recognize their own lack of skill, fail to recognize the extent of their inadequacy, and fail to recognize genuine skill in others.

To assess how good we are at something requires exactly the same skills as it does to be good at something in the first place. The D-K effect implies that bankers and regulators whose careers have prospered in cultures shaped by predatory politics lack both the skills and the motivation needed to recognize and root out injustice. It is hard to change the norms of any culture, particularly one that continues to make its leaders rich (Schein, 2010). Related research (Ehrlinger, Johnson, Banner, Dunning, and Kruger, 2008) shows that poor performers in any endeavor tend not to learn from feedback that clearly suggests a need to improve.

For example, even in the wake of the Great Financial Crisis, government macroeconomists (e.g., Fischer, 2016) still espouse a myopic view of the variables on which crisis-management policies should focus. Their models neglect the longer-term impact that creditor bailouts aimed at averting runs and meltdowns and macroeconomic policies aimed at current rates of inflation and unemployment have: (1) on the fairness of distributions of income and wealth and (2) on longer-term financial stability. This neglect is odd (and seemingly culpable) since it is well-known that reinforcing go-for-broke financial behavior reduces the productivity of real investment and that the marginal propensity to spend out of income and wealth is apt to be much higher for low-income and middle-income families than for the ultrahigh-income households that benefit directly from creditor bailouts.

So at least to this extent, bailout policies that indiscriminately load future tax burdens on ordinary citizens: (1) reduce employment and aggregate demand, and (2) promote the reckless pursuit of safety-net subsidies in ways that lessen the social value and sustainability of post-crisis economic growth. The D-K effect implies that, however skilled they may be in generating profits, megabankers instinctively over-rate the quality of their personal and corporate ethical standards. Industry standards of performance have always been high, but the standards of review designed to enforce these aspirations have been and remain overly forgiving. As a result, few individual managers have been prosecuted ex post for reckless behavior that took place during the precrisis bubble phase. Performance standards –such as the Dutch Bankers' Oath of 2014 – have toughened in several countries, but it remains to be seen how energetically prosecutors will pursue opportunities to fine, suspend, and/or blacklist violators.

This paper argues the unwillingness of the industry and its regulators to face up to the logical flaw in their insistence that stockholder value may properly serve as the touchstone for ethical behavior at too-big-to-fail firms amounts to a violation of top managers' "duty to understand" the consequences of actions that risk the ruination of their firm. Kant's (1785) second moral imperative categorizes the maximization of stockholder value as an ethically abusive goal for a megabanking institution (Kane, 2016). This goal is abusive because it lets managers write contracts that reward them for booking dangerous tail risks that they fund with guarantees extracted from taxpayers forcibly through the safety net.

The next section shows how not measuring, servicing, or safeguarding taxpayers' equity position violates Kant's commonsense ethical principles. At megabanks, efforts to defend the stockholder-primacy hypothesis ignore an obvious fact: Anticipatable credit support is available to any firm –large or small-- that authorities find hard to fail and unwind when and as it approaches insolvency. Central-bank incentives to rescue the creditors of zombie megabanks in particular force taxpayers to supply loss-absorbing equity capital to these firms on concessionary terms at times when no one else will give them any credit at all. Authorities' propensity to rescue megabanks assigns taxpayers a coerced and badly structured equity stake in their operations. From a moral perspective, this stake deserves to be measured and serviced every bit as carefully as the stake that explicit shareholders enjoy.

Figure 1 shows that representative estimates of the dividends due on this stake increase in recessions, fall back in booms, and have been increasing on average over time. Managers can hide losses and tail risks with impunity as long as they understand how to exploit an evolving set of professionally certified accounting loopholes. Like a Las Vegas magician, managers and accountants expect directors and stockholders to admire their skillful use of smoke and mirrors to make losses and loss exposures invisible to the naked eye. To stop the secular expansion of safety-net subsidies, society needs to make profits based on subsidy extraction a source of professional disdain, rather than admiration. This will not happen until and unless regulators and supervisors strip out from reported profit flows the embedded value of the taxpayer credit support a megabank receives. Safety-net subsidies are rooted in regulatory norms that delay the recognition and resolution of de facto insolvencies. Delays in loss detection and regulatory intervention intensified the Great Financial Crisis by enabling insolvent zombie institutions (such as Countrywide Financial) to adopt aggressive endgame strategies that—by squeezing industry profit margins—spread insolvency to competing institutions. Extending accounting principles to highlight taxpayers' stake can force regulators and auditors to focus specifically on whether and to what extent particular market extensions and financial innovations reduce the effectiveness of prudential policies.

What Should Regulators and Megabankers Do?

My answer to this question is based on an apolitical theory of the fiduciary duties that, in principle, managers of difficult-to- resolve banks owe taxpayers as implicit shareholders in their firms. Regulators and megabankers should in principle work together to give taxpayers a fair return on the equity funding they supply. The follow-on policy problem is to insist that the executive cultures of the post-crisis banking and financial-regulation sectors of the US and UK explicitly incorporate and enforce duties of loyalty, competence, and care that as a matter of principle they already owe to taxpayers.

This section seeks to establish a moral basis for recognizing the existence of these duties. The core problem of ethical theory is to distinguish motives and conduct that are morally right from motives and conduct that are morally wrong or dicey. Immanuel Kant (1724-1804) based his common-sense ethical theory on the existence of what he described as "categorical imperatives." These are universal principles that determine abstract duties that everyone logically owes to others. Dutiful action is to be contrasted with conduct that is aimed rationally at achieving some self-serving end. Kant's second imperative states that one should act so that one treats oneself and others as ends in themselves and never only as a means to an end (Kant, 1993, 1785). On this criterion, no professional or bureaucratic code of ethics can be morally right if it tolerates using other citizens merely as means to achieve the self-serving end of maximizing stockholder value.

The key is to see that the confident expectation that creditor bailouts will emerge when a megabank falls into distress lets the managers and boards of megabanks treat other citizens as means rather than ends. The firmness of creditors' expectations of rescue makes creditors pay insufficient attention to risks in booms and helps zombie firms to force central bankers into unwinnable games of chicken when and if these risks sour. This process allows predatory megabanks to shift what may be diseconomies from large-scale operation to competitors and ordinary citizens as tax and other burdens generated by forcing them to live with a heightened frequency and depth of financial crises. Doing good may be good business, but it is hard to prove that by looking at the behavior of the world's biggest and most successful banks. Figure 2 shows that 10 world-class firms paid fines for specific regulatory breaches during 2009-2015 that totaled $150 billion. Over $60 billion of this amount was for lying to clients either in reporting or in describing the quality of loan securitizations in particular. Many of these breaches (e.g., for mis-selling personal protection insurance and various derivative instruments) harmed customers directly and fooled outsider shareholders into thinking the bankers involved were doing a great job. Buried inside these figures are fines for perpetrating frauds engineered to conceal for years the increasingly perilous economic condition of Greece and Enron [see, e.g., Abdel-khalik (2016)].

Edgar Schein's model of organizational culture (2010) can help us to understand how central-bank incentive conflict has worked to disadvantage taxpayers over a series of economic booms and busts. His model uses the methods of cultural anthropology and, perhaps for that reason, is not even mentioned in Alisina and Giuliano's otherwise comprehensive 2015 review of the economics of culture. Schein's model of organizational culture has three components: (1) espoused goals and strategies for achieving them; (2) artifacts: buildings, staffs, equipment, various processes the organization uses, and other observable features of its operation; and (3) deeply imbedded behavioral norms and shared assumptions ("beliefs") about how to behave in different circumstances. These unspoken and resilient norms and assumptions (what the French call le non dit) often conflict with espoused goals.

Schein's distinctions have helped me to re-think the problem of TBTF-based safety-net abuse. I believe legal systems must (and will eventually) make it clear that recklessly increasing a megabank's risk of ruin is a form of theft from the equivalent of a trust fund that taxpayers have dedicated to covering ruinous losses at each TBTF bank. For this to happen, bank charters and enforceable rules of the financial game must be rewritten in ways that recognize that it is morally wrong for individual managers to adopt risk-management strategies that willfully conceal and misappropriate taxpayers' equity stake in a TBTF institution. Faithless behavior toward taxpayers deserves to be sanctioned explicitly by both corporate and criminal law and should never have been excused by insurance law as inevitable moral hazard.

Although regulators seem eager to collect corporate-level fines, the regulatory cultures of most Western countries undermine financial stability by showing a perverse reluctance to punish reckless and dishonest banking at the individual level. This leniency traces to unacknowledged norms of mercy and helpfulness for "good people caught in bad situations" (see Eisinger, 2016). These norms conflict sharply with regulators' espoused mission and values, but are deeply imbedded in central-bank cultures, as modeled in Figure 3. Among other prescriptions, centralbank norms celebrate not rocking the boat, regarding big banks as clients to be helped (especially in competing with foreign firms) and, even if proven otherwise, to attribute solvency problems to bad luck, bad judgment, and persons doing "one bad thing," rather than to endless games of hideand-seek and chicken that megabankers have been putting over on them for years.

From a game-theory perspective, how particular policy strategies work in practice is codetermined by the rules officials promulgate and by regulatees' ability to find and exploit circumventive loopholes in the enforcement of these rules. Kane (1988) depicts this process as a Regulatory Dialectic. In this game, a good part of taxpayers' informational disadvantage lies in regulators' reluctance to publicize just how megabanks invest in accumulating political and economic clout and how they exercise it. This clout simultaneously supports creditors' expectations of rescue and undermines officials' ability to force megabanks to behave more prudently. Although they are outcoached, outgunned, and almost always playing from behind, regulators soldier on. In the postcrisis era, soldiering on entails writing loopholeriddled rules that ask megabanks in good faith: (1) to formulate viable windup plans; (2) to accept evolving disclosure obligations, stress tests, and compensation controls; (3) and to strengthen balancesheet liquidity and capital positions. My concern is that megabankers have shown again and again that rules of this kind can only temporarily constrain the pursuit of destructive tail risks. To make long-lasting progress, I firmly believe that governments need to make reckless management of a TBTF bank a prosecutable crime and oblige themselves to prosecute at least the most-consequential cases.

As an extension of welfare economics theory, my analysis seeks to push the efficient utility-possibilities frontier a step beyond the limits imposed by Pareto optimality. To accomplish this, I introduce Kantian ethical principles as an additional constraint on the shape of this frontier. These principles focus on discrediting what one does to rather than for others. A move from one Pareto point to another must always "hurt" one person while it pleases another. But can such a move properly be called optimal if the second person B is deliberately harmed (or even killed) solely to benefit person A? To locate themselves on my Kant-restricted frontier, megabankers have an obligation to acknowledge and repair moral flaws in the way that agency and megabank cultures overlap. Currently, these flaws encourage megabankers to deliberately risk the ruin of their firms during economic booms to boost their firms' current stock price and their own stock-based compensation by shifting future responsibility for covering their firms' worst tail risks to taxpayers and the citizenry at large. To lessen these incentives requires changes in company law and in prosecutorial duties aimed at compelling megabankers and central-bank officials in both countries' financial and government sectors to treat taxpayers more fairly.

How Should Megabankers Defend and Expand Their Profit-Making Activity?

Despite the widespread suspicion that megabanks have become too large and complex to manage efficiently, in the aftermath of the crisis, megabanks have been allowed to increase their market power substantially. For the US, the increase in market power is indicated graphically in Figure 4 using the Hirschman-Herfindahl Index. Arguably, megabanks owe this development to an ability to corrupt the politics of the regulatory system to impose disproportionate paperwork burdens on smaller competitors. In the absence of safety-net subsidies to tail risks, many of the tasks megabanks perform through subsidiaries could be accomplished as well (or perhaps even better) by more loosely affiliated firms, able to co-ordinate their behavior across a series of external information networks and trading platforms. But because the reliability of its access to safety-net subsidies grows with the political clout that a bank can generate by increasing its size, complexity and geographic footprint, megabanks have an appetite for takeovers and a huge competitive advantage over smaller competitors.

The apparent profitability of very large banks and the political power necessary to sustain this advantage are squeezing small-bank profit margins and facilitating their absorption over time into larger entities. Kant's second moral imperative tells us that using the political and regulatory system to promote one's welfare at the expense of competitors and ordinary citizens is per se immoral. The harm suffered by ordinary citizens through the safety net depends on the same kind of coercion that we see in a protection racket. Force is used or threatened by employing the central bank and taxing authority as middlemen that scare the citizenry into transferring resources through the safety net from the central bank to megabank perpetrators. The Great Recession that has followed the Great Financial crisis shows that the level of harm has become high enough that citizens have a right to expect megabankers and regulators to make a sincere effort to understand and repair the ethical flaws that have sustained this process.

Uncovering Ethical Flaws in Central-Bank Culture

It's important to understand what's gone wrong at central banks. The problem is not that prudential regulators do not want to protect society from the consequences of reckless risktaking, capital shortages, and loss concealment at megabanks. The problem is that they also have other important fish to fry. Various memoirs [e.g., Arthur Burns' diaries (compiled in Ferrell, 2010) and Bernanke (2015)] indicate that central bankers see themselves as an unfairly scapegoated team of heroes who in difficult times are assigned a series of overambitious goals by cynical politicians.

In advanced countries, performance norms for crisis management embody long-held assumptions about how regulators might best deal with a distressed banking sector. First, a market-calming norm says that it is okay to mischaracterize the nature of a hopelessly insolvent zombie firm's distress as a liquidity problem to forestall a threatened run or system meltdown. Then, to minimize spillover effects, central bankers also claim a duty to rescue the creditors of troubled banks as fully as possible. But Kant makes clear that any and all duties of rescue are inferior to the moral imperative of not harming other citizens. To respect this imperative, central bankers must not use the window of relief that emergency guarantees provide to delay or avoid the cleanup and allocation of losses that economic recovery requires (Kane and Klingebiel, 2004).

I find it instructive to contrast central-bank efforts to rescue managers, creditors, and stockholders of zombie institutions with the way firefighters approach their jobs. Both professions prioritize a duty of rescue, but providing funding support to an insolvent bank without resolving its insolvency amounts to abandoning prematurely the metaphorical "fire" that has burnt through its assets. Providing credit support to a zombie firm allows the ashes of its insolvency to fester and encourages arsonist managers to fan the flames by loading up on new forms of tail risks. On average, the lack of sustainability in the real investments the zombie-bank borrowers are encouraged to pursue is bound to slow macroeconomic recovery (Kane, 1989). Regulators, politicians and the financial industry enjoy a great deal of cover because the precise depth of a zombie firm's insolvency cannot be determined quickly. They operate in a regime of secrecy that –to protect confidential information and to limit the possibility of runs and meltdowns—makes it hard for outsiders (even well-trained bank examiners) to observe adverse information promptly.

But to isolate the worst cases, authorities need only establish that assets equivalent to those a distressed firm holds have lost a great deal of market value. Post-crisis reformers pride themselves on equipping US and UK central bankers with weapons of "enhanced prudential regulation." The effectiveness of several of these weapons is challenged by Huertas (2015). To be effective, these weapons require a commitment by the other side to "play fair." In both countries, the sting that these weapons convey is being artfully delayed, lobbied down, and neutralized by innovations such as capital-relief trading activity. The slow pace of economic growth and personal exposure to career damage from industry criticism lead top regulators to tolerate this subtle, but unwelcome slippage in their ability to control megabank tail risk.

A Framework for Repairing the Ethical Breakdown

Financial safety nets coerce taxpayers into becoming disadvantaged suppliers of lossabsorbing equity funding. The risk exposure a guarantor assumes comes from simultaneously holding the short position in a put on a bank's losses and a long position in a call on the bank's assets. This is the functional equivalent of an explicit equity position. Characterizing bailout support as owners' equity transforms taxpayer positions in TBTF institutions into a portfolio of trust funds. This way of thinking casts bankers and regulators as trustees and opens up the possibility of installing carefully recruited teams of independent parties to serve as co-trustees. The formal establishment of such trusteeships would lead officials to judge regulatory performance in terms of its effects on the value of taxpayer equity positions and exposures to ruin. It would also require regulators and protected institutions to re-work their norms, information systems, and incentive frameworks to support this effort. I have argued that reckless pursuit of safety-net subsidies is ethically abusive because it entails the coercive exploitation of other citizens. This exploitation is accomplished by suppressing outside access to adverse information and by manipulating the incentives of top regulators and their staff. Because reckless banking is abusive, it is potentially criminalizable. The last step in my argument is to note that the level of harm others have suffered from reckless megabanking creates a prima facie case for outlawing it and prescribing appropriate punishments for its perpetrators.

My policy recommendations reduce to the following haiku: When governments bail a bank that deserves to fail, someone warrants jail.
However, neither British nor American company law currently allows an arrest warrant to be issued for safety-net abuse per se. The traditional approach to fiduciary duty has two central components: (1) non-shareholder participants in the capital structure may be expected to obtain their legal protections through contract, not through the operation of corporate law; but (2) duties can shift from shareholders to bondholders in an undefined "vicinity" of insolvency.4[4 Partnoy (2007). He goes on to describe the rationale for stockholder primacy in the following way: "it is the shareholders who have the claim on the residual value of the enterprise, that is, what's left after all definite obligations are satisfied. Accordingly, the argument goes, managers have an affirmative open-ended duty to increase this residual value, rather than the wealth of some other group. Managers should maximize share value subject to the constraint that the corporation must meet all its legal obligations to others who are related to or affected by it".]

Partnoy (2007) shows that complications that stock options and hybrid securities introduce into that capital structure of modern firms demand a radical rethinking of the assignment of corporate fiduciary duties, and not just in the vicinity of insolvency. The idea is that innovative instruments provide different ways of investing in a firm and the contract-law metanorm of good faith precludes deliberately privileging one group of investors over another.

In the US, statutory company law is left to the states, which means principally Delaware and New York. Lynn Stout (2012) and Vincenzo Bavoso (2015) show respectively that neither US nor UK law offers any statutory authority for making profit maximization the primary management norm. This lack of statutory authority and legislators' reluctance to re-think basic corporate-law principles suggest that issues related to management's evolving duties to other stakeholders in TBTF firms are likely to be settled in the courts. The traditional justification for stockholder primacy in common law is the presumption that stockholders are the residual risk bearers in the corporation.

But in TBTF institutions, implicit safety-net guarantees assign the worst parts of residual risk to taxpayers. As judges come to understand this, the common law may be expected to change of its own accord. Stock-based compensation in TBTF firms permits managers and stockholders to conspire against taxpayers, whether or not individual managers can be shown to understand and intend this. Looking favorably on incentive contracts designed to align the interests of managers and stockholders in megabanks against taxpayers is inconsistent with the principle of equal treatment under the law. Still, the burdens of proof embodied in the US business-judgment rule make no sense for TBTF firms and must also change. Banking crises and customer abuse occur for two reasons. First, bankers can reap long-lasting rewards from abusing the financial rules of the road. Second, they understand that elitist supervisory and prosecutorial norms are apt to spare them from suffering a substantial personal penalty for this behavior (Eaglesham and Das, 2016).

Crimes of gross negligence and extreme recklessness provide exceptions to the need for the state to prove mens rea. Judges do not give reckless drivers a pass if prosecutors cannot show that the accused fully understood the dangers of violating the rules of the road or had a willful intention to cause an accident. It is wrong-headed for fraud laws to require evidence that, in recklessly driving a firm to ruin, megabankers had an explicit intention to harm taxpayers or to make loans that they believed would never be repaid. Under current accounting principles, profit maximization at TBTF firms violates the norm of fairness on which all law is based and courts should recognize this. The critical points are: (1) that the reckless pursuit of hidden tail risks harms the interests of taxpayers and of workers who later find themselves mistrained and misallocated; and (2) that, to deserve their high pay, megabank managers ought to understand the principles of risk management and risk transfer well enough to know that.

Whether they are complicit or merely deferential, banking supervisors have let society down in two ways: (1) by not setting up the equivalent of state-of-the-art red-light cameras, radar systems, and helicopter surveillance to track excessive speed and aggressive driving and (2) by not developing a resolution scheme and penalty structure that can punish unruly individuals in a meaningful and timely fashion.

Goodhart and Segoviano (2015) study the effects of triggering a ladder of increasingly stringent penalties on distressed banks, in the form of increased oversight and various limitations on dividends and executive bonuses. As a metric for distress, these authors develop operational methods for estimating a bank's probability of distress. But effective regulation and supervision must also establish disincentives strong enough to dissuade individual bankers whose mindset might otherwise tempt them to drive at perilous speeds and to undertake dangerous maneuvers for personal gain. To improve megabank driving habits more than marginally and temporarily, miscreants must fear that they will be caught and punished firmly enough to make risk shifting and customer abuse seem personally unprofitable for them.

The correspondence between regulating banks and regulating vehicular traffic suggests that, country by country, the penalty structure and burdens of proof in cases of safety-net theft could be designed to parallel those used to prove speeding and driving under the influence in traffic courts. Most governments combine: (1) fines for minor violations, (2) a point system which hikes the penalty for repeated or more-serious violations, and (3) procedures for transferring particularly consequential cases (such as vehicular homicide or extreme drunken driving) to ordinary criminal and civil courts. In the US, we already have administrative procedures for enforcing regulatory findings in hearings that resemble those of traffic courts. What we need (but don't have) is bright-line rules for triggering arrests and prosecution any time that safety-net abuse rises to the level of highway robbery. It is important to link individual penalties, not as in the UK only to recorded insolvencies, but also to increases recorded in a specific tail-risk measure (such as the one displayed in Figure 1) during the two or three quarters preceding and following any material intervention that served to rescue bank creditors. 21

Summary

Characterizing taxpayer bailout support as a form of coerced equity investment leads us to interpret taxpayers' positions in megabanks as a portfolio of trust funds. Although it is only part of the solution, rewriting each country's corporate code to require bankers to measure and service the value that they extract from these trust funds would be a good start. But no matter how regulators write such a rule and how they might repack their tangible toolbox of stress tests, living wills, compensation controls, and capital and liquidity requirements, if they do not also set up ways to punish individuals for acts of willful or complicit safety-net theft, we are bound to experience more and more safety-net abuse in the future. To assure that taxpayer rights are enforced, I believe that safety-net abuse must also be defined as a bright-line form of criminal theft and regulators and prosecutors and judges must be obliged to impose a ladder of graduated penalties on individuals who can be shown to have authorized or engaged in reckless tail-risk maneuvers.

Title: Review of ‚Finance and Industrial Policy, Beyond Financial Regulation in Europe’
Author: Michael Sawyer
From: Oxford University Press
Date: February 1, 2016

The 2008 global financial crisis, together with the experience of de-industrialization across Western Europe over the last three decades, has focussed attention on financial regulation and industrial policy.

Industry and finance policies have largely been discussed separately, and this book argues that the two should be considered together, in both analysis and policy formulation that deals with critical questions of how finance has intervened in industrial restructuring and how it might better serve the real economy. Moreover, policy debates have paid relatively little attention to the heterogeneous economic structures and growth trajectories of European economies, and the interconnectedness and interdependencies of growth paths that present specific challenges to policy and highlight the need for cooperation across the region.

This book brings together leading scholars and policy makers to contribute to policy debates in three ways. First, it includes current discussions of banking policy, regulation, and reform to reassert the need for financial institutions that will back up and finance an industrial policy to revive the European economy. Second, it reviews the role of industrial and investment policy in supporting innovation, creating jobs, and generating sustainable economic growth. Third, it advances alternative policy proposals aimed at generating sustainable economic growth and employment in Europe. Part I analyses the nature of growth, industrial, and economic restructuring in relation to finance in the lead up to the crisis, at regional, national, and sector levels. Part II presents alternative and progressive policy proposals for growth and employment in Europe in light of the analysis presented in Part I.

Title: Wall Street is veel te groot geworden
Author: Gerben van der Marel
From: Fondsnieuws
Date: June 9, 2016

De financiële sector is niet meer dienstbaar aan het bedrijfsleven, maar bestaat alleen nog om zichzelf te verrijken, stelt journalist Rana Foroohar. Jan met de pet heeft het nakijken, schrijft ze in haar bestseller Makers and Takers, The Rise of Finance and the Fall of American Business.

Ondanks de verwoestende crisis van 2008 staat de financiële sector nog altijd centraal in de economie in de Verenigde Staten. Rana Foroohar schrijft in haar boek Makers and Takers dat Wall Street zich niet meer dienstbaar opstelt aan het bedrijfsleven.
Dat heeft desastreuze gevolgen voor de kwakkelende economie, aldus de veertiger die opgroeide tussen de maakindustrie in het rurale Indiana maar als journalist carrière maakte in Londen en New York voor de magazines Newsweek en Time.
Innovatie komt vooral van private bedrijven en veel minder van beursfondsen die te veel op kortetermijnresultaten sturen. Fondsnieuws sprak met Foroohar op een steenworp afstand van Wall Street.

Wat zijn de reacties uit de boardrooms en van Wall Street op uw kritische boek?
'Ik krijg telefoontjes van verlichte nanciers en hedgefondsmanagers. Ook zij denken diep na over de vraag waar groei de komende tijd vandaan zal komen. Ze reali-seren zich als beleggers dat er in een tijdperk met lagere rendementen iets moet gebeuren aan de onderkant en in het midden van de economie. Van ceo's hoor ik weinig. Ik had steun verwacht. Maar ik denk dat ze bang zijn voor een confrontatie met hun board als ze de kwartaalresultaten niet keer op keer opvoeren.'

De beurzen staan op recordniveau en huizenprijzen stijgen. Gelooft u niet dat de VS de langverwachte impuls krijgen via het welvaartseffect?
'Nee, dat denk ik niet. Ik maak me zorgen over de ontkoppeling van de financiële markten en de reële economie. Gewone Amerikanen profiteren nauwelijks van de beurs. We zitten nog steeds in het langste en traagste herstel van de naoorlogse periode met afvlakkende lonen en een sterke verdieping van de kloof tussen arm en rijk.'

De huizenmarkt heeft toch een enorm herstel laten zien sinds de crisis?
'Dat herstel concentreert zich in het bovenste segment. Van de huizenprijsstijgingen zit 60 procent aan de bovenkant. Mensen gaan erop vooruit aan de oostkust en de westkust. Daar tussenin nauwelijks.'

De financiële sector gooit volgens u zand in de motor van de wereldeconomie in plaats van smeermiddel. Waar blijkt dat uit?
'Finance is zó groot geworden dat die alle zuurstof uit de ruimte wegzuigt. We hebben financiële markten die bestaan om zichzelf te verrijken. Ze functioneren niet. De Fed heeft 4.000 miljard dollar in de financiële markten gepompt. Kijk naar het resultaat. Het verstoort de waarderingen op de beurs. Het effect op de reële economie zien we niet. De commerciële vastgoedmarkt staat op knappen en we hebben een zeepbel op de obligatiemarkt. De rijkste 10 procent van de bevolking bezit 80 procent van alle activa. Zo kan ons kapitalistische systeem niet functioneren.'

Zien we ook een terugkeer van potentieel giftige bundels hypotheken die mede geleid hebben tot de crisis van 2008?
'Dat is allang weer business as usual. Mensen zijn al snel weer vergeten wat ons in de economische crisis heeft gestort. Van al het geld dat rondgaat in de financiële markten wordt slechts 15 procent ingezet in de reële economie. De overige 85 procent wordt rondgepompt. Vooral in de vastgoedwereld gaat veel geleend geld om. De financiële sector is goed voor 7 procent van de economie, maar pakt een kwart van alle bedrijfswinsten. De sector eist een steeds groter deel van de taart op.'

Voor de grote banken zijn de tijden toch wel iets veranderd?
'De financialisering is niet gestopt na 2008. Het is verplaatst. De risico's en de winsten zijn naar schaduwbanken gevloeid, naar hedgefondsen, private equity maar ook naar Apple dat tegenwoordig zelf de uitgifte van obligaties begeleidt zoals Goldman Sachs dat doet, alleen dan minder transparant. Gewone Amerikanen hebben weinig aandeel in alle rijkdom. De financiële sector zorgt slechts voor 4 procent van de Amerikaanse banen.'

Wat bedoelt u met financialisering?
'Vroeger waren de financiële markten dienstbaar aan bedrijven. Ze namen ons geld in deposito om het te investeren in nieuwe bedrijven en banen te creëren. Dat is hoe het moderne kapitalisme zou moeten werken. Maar vanaf de jaren zeventig kwam finance bovenaan de economische piramide te staan. We waren ooit een agrarisch volk, toen een industriële natie, vervolgens een land van dienstverleners en toen opeens, met een oerknal, een finance natie.'

Title: How Wall Street is choking our economy and how to fix it
Author: Rana Foroohar
From: Time Magazine
Date: May 23, 2016

A couple of weeks ago, a poll conducted by the Harvard Institute of Politics found something startling: only 19% of Americans ages 18 to 29 identified themselves as "capitalists." In the richest and most market-oriented country in the world, only 42% of that group said they "supported capitalism." The numbers were higher among older people; still, only 26% considered themselves capitalists. A little over half supported the system as a whole.

This represents more than just millennials not minding the label "socialist" or disaffected middle-aged Americans tiring of an anemic recovery. This is a majority of citizens being uncomfortable with the country's economic foundation—a system that over hundreds of years turned a fledgling society of farmers and prospectors into the most prosperous nation in human history. To be sure, polls measure feelings, not hard market data. But public sentiment reflects day-to-day economic reality. And the data (more on that later) shows Americans have plenty of concrete reasons to question their system.

This crisis of faith has had no more severe expression than the 2016 presidential campaign, which has turned on the questions of who, exactly, the system is working for and against, as well as why eight years and several trillions of dollars of stimulus on from the financial crisis, the economy is still growing so slowly. All the candidates have prescriptions: Sanders talks of breaking up big banks; Trump says hedge funders should pay higher taxes; Clinton wants to strengthen existing financial regulation. In Congress, Republican House Speaker Paul Ryan remains committed to less regulation.

All of them are missing the point. America's economic problems go far beyond rich bankers, too-big-to-fail financial institutions, hedge-fund billionaires, offshore tax avoidance or any particular outrage of the moment. In fact, each of these is symptomatic of a more nefarious condition that threatens, in equal measure, the very well-off and the very poor, the red and the blue. The U.S. system of market capitalism itself is broken. That problem, and what to do about it, is at the center of my book Makers and Takers: The Rise of Finance and the Fall of American Business, a three-year research and reporting effort from which this piece is adapted.

To understand how we got here, you have to understand the relationship between capital markets—meaning the financial system—and businesses. From the creation of a unified national bond and banking system in the U.S. in the late 1790s to the early 1970s, finance took individual and corporate savings and funneled them into productive enterprises, creating new jobs, new wealth and, ultimately, economic growth. Of course, there were plenty of blips along the way (most memorably the speculation leading up to the Great Depression, which was later curbed by regulation). But for the most part, finance—which today includes everything from banks and hedge funds to mutual funds, insurance firms, trading houses and such—essentially served business. It was a vital organ but not, for the most part, the central one.

Over the past few decades, finance has turned away from this traditional role. Academic research shows that only a fraction of all the money washing around the financial markets these days actually makes it to

Main Street businesses. “The intermediation of household savings for productive investment in the business sector—the textbook description of the financial sector—constitutes only a minor share of the business of banking today,” according to academics Oscar Jorda, Alan Taylor and Moritz Schularick, who’ve studied the issue in detail. By their estimates and others, around 15% of capital coming from financial institutions today is used to fund business investments, whereas it would have been the majority of what banks did earlier in the 20th century.

“The trend varies slightly country by country, but the broad direction is clear,” says Adair Turner, a former British banking regulator and now chairman of the Institute for New Economic Thinking, a think tank backed by George Soros, among others. “Across all advanced economies, and the United States and the U.K. in particular, the role of the capital markets and the banking sector in funding new investment is decreasing.” Most of the money in the system is being used for lending against existing assets such as housing, stocks and bonds.

To get a sense of the size of this shift, consider that the financial sector now represents around 7% of the U.S. economy, up from about 4% in 1980. Despite currently taking around 25% of all corporate profits, it creates a mere 4% of all jobs. Trouble is, research by numerous academics as well as institutions like the Bank for International Settlements and the International Monetary Fund shows that when finance gets that big, it starts to suck the economic air out of the room. In fact, finance starts having this adverse effect when it’s only half the size that it currently is in the U.S. Thanks to these changes, our economy is gradually becoming “a zero-sum game between financial wealth holders and the rest of America,” says former Goldman Sachs banker Wallace Turbeville, who runs a multiyear project on the rise of finance at the New York City—based nonprofit Demos.

It’s not just an American problem, either. Most of the world’s leading market economies are grappling with aspects of the same disease. Globally, free-market capitalism is coming under fire, as countries across Europe question its merits and emerging markets like Brazil, China and Singapore run their own forms of state-directed capitalism. An ideologically broad range of financiers and elite business managers—Warren Buffett, BlackRock’s Larry Fink, Vanguard’s John Bogle, McKinsey’s Dominic Barton, Allianz’s Mohamed El-Erian and others—have started to speak out publicly about the need for a new and more inclusive type of capitalism, one that also helps businesses make better long-term decisions rather than focusing only on the next quarter. The Pope has become a vocal critic of modern market capitalism, lambasting the “idolatry of money and the dictatorship of an impersonal economy” in which “man is reduced to one of his needs alone: consumption.”

During my 23 years in business and economic journalism, I’ve long wondered why our market system doesn’t serve companies, workers and consumers better than it does. For some time now, finance has been thought by most to be at the very top of the economic hierarchy, the most aspirational part of an advanced service economy that graduated from agriculture and manufacturing. But research shows just how the unintended consequences of this misguided belief have endangered the very system America has prided itself on exporting around the world.

America’s economic illness has a name: financialization. It’s an academic term for the trend by which Wall Street and its methods have come to reign supreme in America, permeating not just the financial industry but also much of American business. It includes everything from the growth in size and scope of finance and financial activity in the economy; to the rise of debt-fueled speculation over productive lending; to the ascendancy of shareholder value as the sole model for corporate governance; to the proliferation of risky, selfish thinking in both the private and public sectors; to the increasing political power of financiers and the CEOs they enrich; to the way in which a "markets know best" ideology remains the status quo. Financialization is a big, unfriendly word with broad, disconcerting implications.

University of Michigan professor Gerald Davis, one of the pre-eminent scholars of the trend, likens financialization to a "Copernican revolution" in which business has reoriented its orbit around the financial sector. This revolution is often blamed on bankers. But it was facilitated by shifts in public policy, from both sides of the aisle, and crafted by the government leaders, policymakers and regulators entrusted with keeping markets operating smoothly. Greta Krippner, another University of Michigan scholar, who has written one of the most comprehensive books on financialization, believes this was the case when financialization began its fastest growth, in the decades from the late 1970s onward. According to Krippner, that shift encompasses Reagan-era deregulation, the unleashing of Wall Street and the rise of the so-called ownership society that promoted owning property and further tied individual health care and retirement to the stock market.

The changes were driven by the fact that in the 1970s, the growth that America had enjoyed following World War II began to slow. Rather than make tough decisions about how to bolster it (which would inevitably mean choosing among various interest groups), politicians decided to pass that responsibility to the financial markets. Little by little, the Depression-era regulation that had served America so well was rolled back, and finance grew to become the dominant force that it is today. The shifts were bipartisan, and to be fair they often seemed like good ideas at the time; but they also came with unintended consequences. The Carter-era deregulation of interest rates—something that was, in an echo of today's overlapping left-and right-wing populism, supported by an assortment of odd political bedfellows from Ralph Nader to Walter Wriston, then head of Citibank—opened the door to a spate of financial "innovations" and a shift in bank function from lending to trading. Reaganomics famously led to a number of other economic policies that favored Wall Street. Clinton-era deregulation, which seemed a path out of the economic doldrums of the late 1980s, continued the trend. Loose monetary policy from the Alan Greenspan era onward created an environment in which easy money papered over underlying problems in the economy, so much so that it is now chronically dependent on near-zero interest rates to keep from falling back into recession.

This sickness, not so much the product of venal interests as of a complex and long-term web of changes in government and private industry, now manifests itself in myriad ways: a housing market that is bifurcated and dependent on government life support, a retirement system that has left millions insecure in their old age, a tax code that favors debt over equity. Debt is the lifeblood of finance; with the rise of the securities-and-trading portion of the industry came a rise in debt of all kinds, public and private. That's bad news, since a wide range of academic research shows that rising debt and credit levels stoke financial instability. And yet, as finance has captured a greater and greater piece of the national pie, it has, perversely, all but ensured that debt is indispensable to maintaining any growth at all in an advanced economy like the U.S., where 70% of output is consumer spending. Debt-fueled finance has become a saccharine substitute for the real thing, an addiction that just gets worse. (The amount of credit offered to American consumers has doubled in real dollars since the 1980s, as have the fees they pay to their banks.)

As the economist Raghuram Rajan, one of the most prescient seers of the 2008 financial crisis, argues, credit has become a palliative to address the deeper anxieties of downward mobility in the middle class. In his words, “let them eat credit” could well summarize the mantra of the go-go years before the economic meltdown. And things have only deteriorated since, with global debt levels $57 trillion higher than they were in 2007.

The rise of finance has also distorted local economies. It’s the reason rents are rising in some communities where unemployment is still high. America’s housing market now favors cash buyers, since banks are still more interested in making profits by trading than by the traditional role of lending out our savings to people and businesses looking to make longterm investments (like buying a house), ensuring that younger people can’t get on the housing ladder. One perverse result: Blackstone, a private-equity firm, is currently the largest single-family-home landlord in America, since it had the money to buy properties up cheap in bulk following the financial crisis. It’s at the heart of retirement insecurity, since fees from actively managed mutual funds “are likely to confiscate as much as 65% or more of the wealth that … investors could otherwise easily earn,” as Vanguard founder Bogle testified to Congress in 2014.

It’s even the reason companies in industries from autos to airlines are trying to move into the business of finance themselves. American companies across every sector today earn five times the revenue from financial activities—investing, hedging, tax optimizing and offering financial services, for example—that they did before 1980. Traditional hedging by energy and transport firms, for example, has been overtaken by profit-boosting speculation in oil futures, a shift that actually undermines their core business by creating more price volatility. Big tech companies have begun underwriting corporate bonds the way Goldman Sachs does. And top M.B.A. programs would likely encourage them to do just that; finance has become the center of all business education.

Washington, too, is so deeply tied to the ambassadors of the capital markets—six of the 10 biggest individual political donors this year are hedge-fund barons—that even well-meaning politicians and regulators don’t see how deep the problems are. When I asked one former high-level Obama Administration Treasury official back in 2013 why more stakeholders aside from bankers hadn’t been consulted about crafting the particulars of Dodd-Frank financial reform (93% of consultation on the Volcker Rule, for example, was taken with the financial industry itself), he said, “Who else should we have talked to?” The answer—to anybody not profoundly influenced by the way finance thinks—might have been the people banks are supposed to lend to, or the scholars who study the capital markets, or the civic leaders in communities decimated by the financial crisis.

Of course, there are other elements to the story of America’s slow-growth economy, including familiar trends from globalization to technology-related job destruction. These are clearly massive challenges in their own right. But the single biggest unexplored reason for long-term slower growth is that the financial system has stopped serving the real economy and now serves mainly itself. A lack of real fiscal action on the part of politicians forced the Fed to pump $4.5 trillion in monetary stimulus into the economy after 2008. This shows just how broken the model is, since the central bank’s best efforts have resulted in record stock prices (which enrich mainly the wealthiest 10% of the population that owns more than 80% of all stocks) but also a lackluster 2% economy with almost no income growth.

Now, as many top economists and investors predict an era of much lower asset-price returns over the next 30 years, America's ability to offer up even the appearance of growth—via financially oriented strategies like low interest rates, more and more consumer credit, tax-deferred debt financing for businesses, and asset bubbles that make people feel richer than we really are, until they burst—is at an end.

This pinch is particularly evident in the tumult many American businesses face. Lending to small business has fallen particularly sharply, as has the number of startup firms. In the early 1980s, new companies made up half of all U.S. businesses. For all the talk of Silicon Valley startups, the number of new firms as a share of all businesses has actually shrunk. From 1978 to 2012 it declined by 44%, a trend that numerous researchers and even many investors and businesspeople link to the financial industry's change in focus from lending to speculation. The wane in entrepreneurship means less economic vibrancy, given that new businesses are the nation's foremost source of job creation and GDP growth. Buffett summed it up in his folksy way: "You've now got a body of people who've decided they'd rather go to the casino than the restaurant" of capitalism.

In lobbying for short-term share-boosting management, finance is also largely responsible for the drastic cutback in research-and-development outlays in corporate America, investments that are seed corn for future prosperity. Take share buybacks, in which a company—usually with some fanfare—goes to the stock market to purchase its own shares, usually at the top of the market, and often as a way of artificially bolstering share prices in order to enrich investors and executives paid largely in stock options. Indeed, if you were to chart the rise in money spent on share buybacks and the fall in corporate spending on productive investments like R&D, the two lines make a perfect X. The former has been going up since the 1980s, with S&P 500 firms now spending $1 trillion a year on buybacks and dividends—equal to about 95% of their net earnings—rather than investing that money back into research, product development or anything that could contribute to long-term company growth. No sector has been immune, not even the ones we think of as the most innovative. Many tech firms, for example, spend far more on share-price boosting than on R&D as a whole. The markets penalize them when they don't. One case in point: back in March 2006, Microsoft announced major new technology investments, and its stock fell for two months. But in July of that same year, it embarked on $20 billion worth of stock buying, and the share price promptly rose by 7%. This kind of twisted incentive for CEOs and corporate officers has only grown since.

As a result, business dynamism, which is at the root of economic growth, has suffered. The number of new initial public offerings (IPOs) is about a third of what it was 20 years ago. True, the dollar value of IPOs in 2014 was $74.4 billion, up from $47.1 billion in 1996. (The median IPO rose to $96 million from $30 million during the same period.) This may show investors want to make only the surest of bets, which is not necessarily the sign of a vibrant market. But there's another, more disturbing reason: firms simply don't want to go public, lest their work become dominated by playing by Wall Street's rules rather than creating real value.

An IPO—a mechanism that once meant raising capital to fund new investment—is likely today to mark not the beginning of a new company's greatness, but the end of it. According to a Stanford University study, innovation tails off by 40% at tech companies after they go public, often because of Wall Street pressure to keep jacking up the stock price, even if it means curbing the entrepreneurial verve that made the company hot in the first place.

A flat stock price can spell doom. It can get CEOs canned and turn companies into acquisition fodder, which often saps once innovative firms. Little wonder, then, that business optimism, as well as business creation, is lower than it was 30 years ago, or that wages are flat and inequality growing. Executives who receive as much as 82% of their compensation in stock naturally make shorter-term business decisions that might undermine growth in their companies even as they raise the value of their own options.

It's no accident that corporate stock buybacks, corporate pay and the wealth gap have risen concurrently over the past four decades. There are any number of studies that illustrate this type of intersection between financialization and inequality. One of the most striking was by economists James Galbraith and Travis Hale, who showed how during the late 1990s, changing income inequality tracked the go-go Nasdaq stock index to a remarkable degree.

Recently, this pattern has become evident at a number of well-known U.S. companies. Take Apple, one of the most successful over the past 50 years. Apple has around $200 billion sitting in the bank, yet it has borrowed billions of dollars cheaply over the past several years, thanks to superlow interest rates (themselves a response to the financial crisis) to pay back investors in order to bolster its share price. Why borrow? In part because it's cheaper than repatriating cash and paying U.S. taxes. All the financial engineering helped boost the California firm's share price for a while. But it didn't stop activist investor Carl Icahn, who had manically advocated for borrowing and buybacks, from dumping the stock the minute revenue growth took a turn for the worse in late April.

It is perhaps the ultimate irony that large, rich companies like Apple are most involved with financial markets at times when they don't need any financing. Top-tier U.S. businesses have never enjoyed greater financial resources. They have a record $2 trillion in cash on their balance sheets—enough money combined to make them the 10th largest economy in the world. Yet in the bizarre order that finance has created, they are also taking on record amounts of debt to buy back their own stock, creating what may be the next debt bubble to burst.

You and I, whether we recognize it or not, are also part of a dysfunctional ecosystem that fuels short-term thinking in business. The people who manage our retirement money—fund managers working for asset-management firms—are typically compensated for delivering returns over a year or less. That means they use their financial clout (which is really our financial clout in aggregate) to push companies to produce quick-hit results rather than execute long-term strategies. Sometimes pension funds even invest with the activists who are buying up the companies we might work for—and those same activists look for quick cost cuts and potentially demand layoffs.

It’s a depressing state of affairs, no doubt. Yet America faces an opportunity right now: a rare second chance to do the work of refocusing and right-sizing the financial sector that should have been done in the years immediately following the 2008 crisis. And there are bright spots on the horizon.

Despite the lobbying power of the financial industry and the vested interests both in Washington and on Wall Street, there’s a growing push to put the financial system back in its rightful place, as a servant of business rather than its master. Surveys show that the majority of Americans would like to see the tax system reformed and the government take more direct action on job creation and poverty reduction, and address inequality in a meaningful way. Each candidate is crafting a message around this, which will keep the issue front and center through November.

The American public understands just how deeply and profoundly the economic order isn’t working for the majority of people. The key to reforming the U.S. system is comprehending why it isn’t working.

Remooring finance in the real economy isn’t as simple as splitting up the biggest banks (although that would be a good start). It’s about dismantling the hold of financial-oriented thinking in every corner of corporate America. It’s about reforming business education, which is still permeated with academics who resist challenges to the gospel of efficient markets in the same way that medieval clergy dismissed scientific evidence that might challenge the existence of God. It’s about changing a tax system that treats one-year investment gains the same as longer-term ones, and induces financial institutions to push overconsumption and speculation rather than healthy lending to small businesses and job creators. It’s about rethinking retirement, crafting smarter housing policy and restraining a money culture filled with lobbyists who violate America’s essential economic principles.

It’s also about starting a bigger conversation about all this, with a broader group of stakeholders. The structure of American capital markets and whether or not they are serving business is a topic that has traditionally been the sole domain of “experts”—the financiers and policymakers who often have a self-interested perspective to push, and who do so in complicated language that keeps outsiders out of the debate. When it comes to finance, as with so many issues in a democratic society, complexity breeds exclusion.

Finding solutions won’t be easy. There are no silver bullets, and nobody really knows the perfect model for a high-functioning, advanced market system in the 21st century. But capitalism’s legacy is too long, and the well-being of too many people is at stake, to do nothing in the face of our broken status quo. Neatly packaged technocratic tweaks cannot fix it. What is required now is lifesaving intervention.

Crises of faith like the one American capitalism is currently suffering can be a good thing if they lead to re-examination and reaffirmation of first principles. The right question here is in fact the simplest one: Are financial institutions doing things that provide a clear, measurable benefit to the real economy? Sadly, the answer at the moment is mostly no. But we can change things. Our system of market capitalism wasn’t handed down, in perfect form, on stone tablets. We wrote the rules. We broke them. And we can fix them.

Title: Katholische Sozialethik und die Soziale Marktwirtschaft
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Date: 2016

Nils Goldschmidt vertritt ordoliberale Positionen und tritt für eine Weiterentwicklung der Sozialen Marktwirtschaft als Gesellschaftsordnung ein. Mit der Übernahme des Vorsitzes hat er der Aktionsgemeinschaft Soziale Marktwirtschaft das Motto „Wirtschaft für den Menschen" gegeben. Dabei sieht er die Notwendigkeit eines ethischen Fundaments: „Das Soziale ist nicht das moralische Anhängsel der Marktwirtschaft, nicht die soziale Soße über ein marktwirtschaftliches Gericht, sondern ein zentraler Bestandteil des Konzepts. Die Soziale Marktwirtschaft muss vom Einzelnen und seinen Entwicklungsmöglichkeiten her gedacht werden. In diesem Sinne ist die Soziale Marktwirtschaft nicht nur eine Wirtschaftsordnung, sondern immer auch eine Gesellschaftsordnung. In ihrer gesellschaftlichen Ausrichtung bedarf die Soziale Marktwirtschaft eines normativen Diskurses. Wirtschaft ohne ethische Reflexion ist gesellschaftlich ziellos."

Das Verhältnis von katholischer Sozialethik und Sozialer Marktwirtschaft ist kompliziert. Trotz zahlreicher Parallelen zwischen beiden Lagern – insbesondere in der Kritik an einem unregulierten Laissez faire-Liberalismus und an wirtschaftlicher Vermachtung sowie hinsichtlich der Bedeutung staatlicher Ordnungsaufgaben – wurden die Gemeinsamkeiten der Gedanken nur sehr zögerlich wahrgenommen. Anfang der 1950er Jahre betonte Oswald von Nell-Breuning, der Nestor der katholischen Soziallehre, noch, dass die Absage der Vordenker der Sozialen Marktwirtschaft an den Laissez faire und das Eintreten für einen neuen Liberalismus zwar „den Anschein erwecken [könne], als sei es dem Neo-Liberalismus gelungen, der individualistischen Verfälschung des alten Liberalismus sich zu entledigen und sich zu echtem Liberalismus zu läutern. Vielleicht mag er in Zukunft einmal wirklich dahin gelangen; bis jetzt aber hat der Neo-Liberalismus trotz des großen Fortschritts, den er namentlich auf wirtschaftliche Gebiet über den manchesterlichen Laissez-faire-Liberalismus hinaus gemacht hat, sich noch nicht vom Individualismus zu lösen vermocht."

Dabei hätte alles so einfach sein können: Es gehört zu den schöneren Anekdoten um die Entstehung der Sozialen Marktwirtschaft, dass der Protestant Alfred Müller-Armack die Idee und den Begriff der Sozialen Marktwirtschaft hinter katholischen Klostermauern erdacht haben soll. Die Forschungsstelle für Allgemeine und Textile Marktwirtschaft der Universität Münster, die Müller-Armack seit 1941 leitete, war im Juli 1943 aus dem von Bomben bedrohten Münster in das an der holländischen Grenze gelegene Herz-Jesu-Kloster in Vreden-Ellewick verlegt worden. Hier hat Müller-Armack sein im Dezember 1946 abgeschlossenes Werk „Wirtschaftslenkung und Marktwirtschaft" geschrieben, in dem erstmals in einer Publikation der Begriff „Soziale Marktwirtschaft" Verwendung findet. Die Erzählung über die Erfindung des Begriffs geht so: „Im zweiten Stock fliegt eine Tür auf, der Hausgast rennt die steinernen Stufen hinab und wedelt mit einem Manuskript. Auf dem Treppenabsatz bleibt er stehen, und in den Flur hinein ruft er: ‚Jetzt hab' ich es. Es muss Soziale Marktwirtschaft heißen! Sozial mit großem S.'" Wie viel Wahrheitsgehalt nun dieser Erzählung zugebilligt werden kann, muss offenbleiben, es steht aber außer Frage, dass Müller-Armack mit dem Konzept der Sozialen Marktwirtschaft mehr bezweckte als eine Kompromissformel für Politik und Öffentlichkeit zu ersinnen. Das „Soziale" ist ihm vielmehr eine Chiffre für die in einer Gesellschaft vorherrschenden und zugleich geforderten Grundhaltungen und Werte. In

seiner Einleitung zu „Wirtschaftslenkung und Marktwirtschaft" schreibt er: „Die Wiederaufnahme der Grundsätze vernünftigen Wirtschaftens schließt keineswegs den Verzicht auf eine aktive und unseren sozialen und ethischen Überzeugungen entsprechende Wirtschaftspolitik ein."
Wie lässt sich das Konzept der Sozialen Marktwirtschaft vor diesem Hintergrund inhaltlich umschreiben? Es sind zumindest drei Punkte, die das „Soziale" der Sozialen Marktwirtschaft systematisch bestimmen können:

Erstens und grundlegend geht es darum, die wirtschaftlichen Vorteile von Markt und Wettbewerb mit den Forderungen eines sozialen Ausgleichs zu verbinden. Es ist der fundamentale Anspruch dieses Konzepts, Lösungswege dafür aufzuzeigen, „wie die divergierenden Zielsetzungen sozialer Sicherheit und wirtschaftlicher Freiheit zu einem neuartigen Ausgleich gebracht werden können", um nochmals Müller-Armack anzuführen. Und es ist diese Fragestellung nach dem Verhältnis von Sozialstaat und freier Marktwirtschaft, die bis heute zahlreiche tagesaktuelle Diskussionen prägt. Zweitens verweist das Attribut ‚sozial' auf einen gesellschaftlichen Anspruch der Sozialen Marktwirtschaft. Den geistigen Vordenkern dieses Programms ging es um mehr als um eine effiziente Wirtschafts- und Sozialordnung, sie zielten vielmehr auf eine umfassende Gestaltung der Gesellschaft (societas) ab. Angestrebt ist im Konzept der Sozialen Marktwirtschaft eine solche Ordnung des Gemeinwesens, in der prinzipiell allen jenseits von Klassenschranken gleiche Chancen zukommen. In diesem Sinne ist Ludwig Erhards „Wohlstand für alle" nicht als ein bloßer Konsumismus zu verstehen, sondern dahinter steht ein verteilungspolitisches Projekt, das jeder und jedem die Möglichkeit eröffnen soll, an den wirtschaftlichen und gesellschaftlichen Errungenschaften der Moderne teilzuhaben. Programmatisch fordert so auch Alfred MüllerArmack in seiner Idee einer „irenischen Formel" (abgeleitet vom griechischen Begriff εἰρήνη – Frieden) die Versöhnung von wirtschaftlicher Effizienz und gesellschaftlichem Wollen, die zugleich auf einer Versöhnung unterschiedlicher Vorstellungen innerhalb der Gesellschaft beruhen muss.

Drittens lässt sich das soziale Anliegen der Sozialen Marktwirtschaft auch als ein genuin ethisches bzw. normatives Anliegen verstehen. Markt und Wettbewerb sind ein Mittel und nicht das Ziel der gesellschaftlichen Gestaltung. Das gesellschaftliche Ziel ist eine menschenwürdige Ordnung, die dem gelingenden Leben jedes Einzelnen dienlich ist. In klassischer Weise findet sich dieses Anliegen formuliert im Vorwort des von Franz Böhm und Walter Eucken begründeten Jahrbuchs „Ordo": „Unsere Forderung beschränkt sich auf die Schaffung einer Wirtschafts- und Sozialordnung, in der wirtschaftliche Leistung und menschenwürdige Daseinsbedingungen gleichermaßen gewährleistet sind. Weil der Wettbewerb diesem Ziel dienstbar gemacht werden kann, das ohne ihn sogar unerreichbar bleibt, deshalb fordern wir ihn. Er ist Mittel, nicht letzter Zweck."

Dabei ist das spezifisch ethische Anliegen der Sozialen Marktwirtschaft im Sinne der christlichen Tradition zu verstehen. Ohne eine Hinwendung zu den religiösen Wurzeln der abendländischen Kultur war der Aufbau einer „civitas humana" nicht denkbar: „[D]ie Marktwirtschaft ist nicht alles. Sie muss in einen höheren Gesamtzusammenhang eingebettet sein." Alfred Müller-Armack spricht in diesem Zusammenhang vom „Metaökonomischen" als Voraussetzung einer gelingenden Wirtschaftspolitik.
Vor diesem Hintergrund einer ethisch fundierten Sozialen Marktwirtschaft als „Wirtschaft für den Menschen" ist es umso erstaunlicher, dass der Dialog mit der katholischen Sozialethik und ihrem am Gemeinwohl orientierten Denken für lange Jahre so beschwerlich war. Die Gründe hierfür waren mannigfaltig: Prinzipiell gab es gegenüber den Ordoliberalen aus katholischer Sicht Misstrauen gegenüber

dem individualistischen Kern des Liberalismus. War der neue Liberalismus nicht nur ein Liberalismus mit neuer Verpackung aber altem Inhalt, der das Wohl des Einzelnen, nicht aber der Gemeinschaft sieht? Auch mit Blick auf die praktische Wirtschaftspolitik gab es klare Unterschiede. Zwar leugneten die Vertreter der Sozialen Marktwirtschaft nicht die Notwendigkeit einer staatlichen Sozialpolitik, jedoch hatten sie von Beginn an die Sorge, dass eine zu wohlmeinende Sozialpolitik die finanziellen Möglichkeiten des Staates langfristig überfordere und zum Einfallstor für Sonderinteressen werden könne. Nell-Breuning und andere sahen in der staatlichen Sozialpolitik hingegen gerade den Garant einer umfassenden staatlichen Absicherung gegen die Willkür des Wettbewerbs und somit als Anwalt der Arbeitnehmer. Zudem war es das Konzept der berufsständischen Ordnung, wie es sich in der Enzyklika „Quadragesimo anno“ von 1931 findet, das für Liberale aufgrund des hörbaren Echos vormoderner Zunftstrukturen inakzeptabel war.

Erst Mitte der 1960er Jahre verändert sich das Klima. Mehr und mehr wurde deutlich, dass es trotz aller Unterschiede viele verbindende Elemente gab und es der katholischen Sozialethik wie der Sozialen Marktwirtschaft um einen dem Menschen dienenden, eingehegten Liberalismus geht. Die Diskussion der Enzykliken „Mater et Magistra“ und „Populorum Progressio“ in beiden Lagern versinnbildlicht diesen Annäherungsprozess. So findet Wilhelm Röpke klare Worte der Übereinstimmung: „Dem Verfasser von ‚Mater et Magistra‘ ist es nicht weniger klar als den ‚Neoliberalen‘, dass die rechte Antwort auf die große Frage [nach den Herausforderungen der Industriegesellschaft, N.G.] zweierlei umfassen muss: Die entschiedene Absage an den Sozialismus […] und den offenen Blick auf die Ansatzpunkte einer Neugestaltung der Marktwirtschaft, welche Würde und Wert des Menschen, Freiheit und Gerechtigkeit, Person und Familie gegen die unleugbaren Gefahren der modernen Industriegesellschaft schützt.“[9] Auch Oswald von Nell-Breuning betont die Gemeinsamkeiten: „Was Paul VI. über den Wettbewerb sagt – von großem Nutzen in voll entwickelten Volkswirtschaften, das heißt wo ausreichende Chancengleichheit gesichert ist oder sichergestellt wird, dagegen verderblich und zu Ungerechtigkeiten führend, wo starke und schwache, seien es einzelne, seien es Volkswirtschaften, miteinander konkurrieren –, wird jeder neoliberale Nationalökonom vorbehaltlos unterschreiben. Wer dagegen aufbegehrt, identifiziert sich mit einem Typ des Liberalismus – der Papst nennt ihn ‚ungehemmten Liberalismus‘, wir nennen ihn mit Alexander Rüstow ‚Paläoliberalismus‘ –, den wir ausgestorben glaubten, der aber, wie Reaktionen auf die Enzyklika beweisen, noch kräftig am Leben ist.“

Es ist dieses Verständnis einer geordneten, chancengerechten, am Menschen ausgerichteten Marktwirtschaft, das zum Kristallisationspunkt der Verständigung beider Denkschulen bis heute gelten kann. Von kirchlicher Seite ist es das große Verdienst des langjährigen Erzbischofs von Köln und Vorsitzenden der Deutschen Bischofskonferenz, Joseph Kardinal Höffner, die engen Parallelen zwischen Sozialer Marktwirtschaft und der Freiburger Schule des Ordoliberalismus betont zu haben. Weite Teile des sozialethischen Werks von Höffner, der im Jahr 1940 seine volkswirtschaftliche Dissertation bei Walter Eucken in Freiburg abgeschlossen hatte, lassen sich als eine Art praktische Theologie ordnungsökonomischer Provenienz lesen. Mit Rekurs auf den Ordnungsbegriff und Verweis auf „Quadragesimo anno“ schreibt Höffner bereits 1949: „Wenn die Wirtschaft in eine vernünftige Ordnung gebracht ist, wird sie den Menschen so reichlich Güter zur Verfügung stellen, ‚dass sie nicht bloß zur lebensnotwendigen und sonstigen ehrbaren Bedarfsbefriedigung ausreichen, sondern den Menschen die Entfaltung eines veredelten Kulturlebens ermöglichen, das im rechten Maße genossen dem tugendlichen Leben nicht nur nicht abträglich, sondern im Gegenteil förderlich ist‘ (QA 75).“ Neben Höffner ist es insbesondere Anton Rauscher, dem langjährigen Direktor der Katholischen Sozialwissenschaftlichen Zentralstelle, zu verdanken, dass der Dialog zwischen den beiden Lagern in den vergangenen Jahrzehnten wesentlich intensiviert wurde.

Trotz dieser Annäherung und des engen Austauschs lässt sich seit einigen Jahren eine geradezu paradoxe Situation ausmachen. In den Wirtschaftswissenschaften allgemein, aber auch bei den Vertretern einer wie auch immer verstandenen Sozialen Marktwirtschaft scheint der Gedanke, Wirtschaft und Gesellschaft miteinander zu versöhnen, in den Hintergrund getreten zu sein. Im Vordergrund steht die Frage nach der effizienten Gestaltung von Märkten, der Regulierung einzelner Teilmärkte und die formal-mathematische Durchdringung dieses Prozesses. So hilfreich dies für Einzelfragen ist, ist doch das Denken in umfassenden Zusammenhängen, ist die Frage nach der Gestaltung der gesellschaftlichen Gesamtordnung verloren gegangen. In gewisser Weise hat die katholische Sozialethik diese Leerstelle aufgegriffen und wesentliche Impulse für die Weiterentwicklung einer am Menschen ausgerichteten Sozialen Marktwirtschaft geliefert.

Es ist insbesondere das Verdienst von Papst Johannes Paul II. hier wichtige Anregungen gegeben zu haben. Insbesondere seine letzte Sozialenzyklika „Centesimus annus" aus dem Jahr 1991 propagiert die Vorzüge einer Marktwirtschaft unter den Wirtschaftssystemen und liest sich in weiten Teilen wie eine Schrift in der Tradition des Ordoliberalismus: „Die Wirtschaft, insbesondere die Marktwirtschaft, kann sich nicht in einem institutionellen, rechtlichen und politischen Leerraum abspielen. Im Gegenteil, sie setzt die Sicherheit der individuellen Freiheit und des Eigentums sowie eine stabile Währung und leistungsfähige öffentliche Dienste voraus. Hauptaufgabe des Staates ist es darum, diese Sicherheit zu garantieren, so dass der, der arbeitet und produziert, die Früchte seiner Arbeit genießen kann und sich angespornt fühlt, seine Arbeit effizient und redlich zu vollbringen." (CA, Nr. 48) Zentral ist für Johannes Paul II. die Schaffung einer staatlichen Rahmenordnung, die wirtschaftliche Freiheit erst ermöglicht, nicht aber der Eingriff des Staates in den marktlichen Ablauf selbst – ganz im Sinne der Sozialen Marktwirtschaft. Insgesamt spricht aus „Centesimus annus" ein klares Konzept, dem es um eine systematische Verknüpfung ökonomischer Sachnotwendigkeiten und sozialethischen Grundsätzen geht.

In dieser Deutlichkeit trifft das auf die beiden jüngsten Sozialenzykliken nicht mehr zu. Doch gerade in „Caritas in veritate", die Papst Benedikt XVI. im Sommer 2009 vorlegte, finden sich klare ordnungspolitische Überlegungen. Es heißt dort: „Das Wirtschaftsleben […] soll auf das Erlangen des Gemeinwohls ausgerichtet werden, für das auch und vor allem die politische Gemeinschaft sorgen muss." (CiV, Nr. 36) Dementsprechend hebt der Papst hervor: „Der Bereich der Wirtschaft ist weder moralisch neutral noch von seinem Wesen her unmenschlich und antisozial. Er gehört zum Tun des Menschen und muss, gerade weil er menschlich ist, nach moralischen Gesichtspunkten strukturiert und institutionalisiert werden." (CiV, Nr. 36) Analog zum Denken der Freiburger Schule fordert Benedikt zunächst die Gestaltung von gerechten Spielregeln und nicht die Moralisierung einzelner Spielzüge. Im Zentrum steht die politische und moralische Rahmenordnung, die die wirtschaftlichen Akteure anhält, sich entsprechend der rechtlichen Vorgaben zu verhalten. In der Enzyklika findet sich freilich mehr: Neben der klassischen ordnungsethischen Botschaft von der Bedeutung der Rahmenordnung werden die politischen, ökonomischen und vor allem gesellschaftlichen Bedingungen zu Beginn des 21. Jahrhunderts diskutiert. Benedikt geht es auch um die Chancen einer zivilgesellschaftlichen Erneuerung der Wirtschaftsordnung: „Es ist im Interesse des Marktes, Emanzipierung zu fördern, aber um dies zu erreichen, darf er sich nicht nur auf sich selbst verlassen, denn er ist nicht in der Lage, von sich aus das zu erreichen, was seine Möglichkeiten übersteigt. Er muss vielmehr auf die moralischen Kräfte anderer Subjekte zurückgreifen, die diese hervorbringen können.“ (CiV, Nr. 35) Eine Überlegung, die auch aus ordnungspolitischer Sicht zu diskutieren wäre.

Schwieriger ist es, Bezüge von der Sozialenzyklika von 2015, „Laudato Si‘“, zur Sozialen Marktwirtschaft zu ziehen. Viele Aussagen dort klingen durchaus markt- und konsumkritisch. Hintergrund für diese Passagen sind Erfahrungen und Beobachtungen – insbesondere aus dem lateinamerikanischen Kontext – und nicht so sehr das Ergebnis einer systematischen Analyse wirtschaftlicher Prozesse. Doch das bedarf es auch gar nicht. Wichtig ist, dass Papst Franziskus in dem Text Ansprüche formuliert, der sich eine moderne und auf die Zukunft gerichtete Soziale Marktwirtschaft stellen muss. Sicher ist, dass der Markt allein diese Herausforderungen nicht meistern kann: „Wieder einmal ist es gut, eine magische Auffassung des Marktes zu vermeiden, die zu der Vorstellung neigt, dass sich die Probleme allein mit dem Anstieg der Gewinne der Betriebe oder der Einzelpersonen lösen.“ (LS 190) Es sind die Fragen nach einem ökologisch verantworteten Wirtschaften, nach den Bedingungen eines menschengemäßen qualitativen Wachstums und die Ursachen und möglichen Begrenzungen wirtschaftlicher Macht – gerade in globaler Perspektive –, die der Papst benennt und auf die eine Soziale Marktwirtschaft in den kommenden Jahren und Jahrzehnten Antworten finden muss.

Sich weiterhin gemeinsam auf den Weg zu einer „Wirtschaft für den Menschen“ zu begeben, wird ein Gewinn für die katholische Sozialethik wie für die Soziale Marktwirtschaft sein. Der Vorsitzende der Deutschen Bischofskonferenz und Erzbischof von München und Freising, Reinhard Kardinal Marx, hat es kürzlich auf den Punkt gebracht: „Was wir brauchen ist ein Umdenken und eine Rückbesinnung auf eine menschengemäße Marktwirtschaft, nur eine solche Marktwirtschaft ist eine wahrhaft Soziale Marktwirtschaft. [...] Verliert die Marktwirtschaft ihre Menschlichkeit, verliert sie ihren Maßstab und damit ihre Legitimation. Unsere bleibende Aufgabe ist es, Wirtschaft dem Menschen zugewandt zu gestalten und das heißt: freiheitlich und chancengerecht zugleich. Ich sehe hier [...] keinen Gegensatz von wirklichem ‚Ordo-Liberalismus‘ und Katholischer Soziallehre, denn beide Ansätze wollen ja über einen nur an Kapitalverwertungsinteressen orientierten Kapitalismus hinausdenken.“

Title: Financial Integrity and Inclusive Capitalism: Civilizing Globalization
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Introduction

A wise American saying proclaims: never waste a crisis! This saying resonates the famous expression used by St. Ambrose, bishop of Milan (V Century): “Happy the collapse [of the Roman empire] if the reconstruction will make the building more beautiful”. The 2007-08 financial and economic crisis affords us a rare opportunity to pause and reflect on where we have been going and where it leads.

Indeed, one of the most penetrating dangers of our epoch was stamped by the XX Century writer C.S. Lewis as the “chronological snobbery”, i.e. the uncritical acceptance of anything merely because it belongs to the intellectual trends of our present. To repulse such a serious danger, intelligibility of res novae and moral commitment are jointly required. The notes that follow are written on the wake of the recent statement by pope Francis: “The Church has experienced times of brilliance, like that of Thomas Aquinas. But the Church has lived also times of decline in its ability to think. For example, we must not confuse the genius of Thomas Aquinas with the age of decadent Thomist commentaries… In thinking of the human being, therefore, the Church should strive for genius and not for decadence…

The thinking of the Church must recover genius and better understand how human beings understand themselves today, in order to develop and deepen church’s teaching”. (Interview with Pope Francis, America Magazine, 30, Sept. 2013). Humanity seems to be on a launch pad. There is a high risk that this will become a tower of Babel destined to collapse unless we can accompany the irreversible nature of technological progress with an ability to manage these advances in a context of social and environmental sustainability and integral human development. The phenomena of globalisation and that of the digital revolution make it urgent and necessary to update our principles and values in the light of the res novae of a rapidly changing world. It is because of today’s desperate quest for novelty and change that we feel the need for reflection in order to avoid the tendency to find comfort in the erroneous belief that the splendid destiny of progress in markets and finance is almost certain to lead us towards a better future. The economy does not run by means of its own mechanisms only, and Adam Smith’s “invisible hand” that would reconcile the sum of individual self-interests with the common good is valid under conditions that are so hard to respect that they have practically never been met. Even competition, although it brings benefits to consumers, is not the natural outcome of the interaction of market forces but is achievable only through action by the appropriate authorities to combat the slide towards oligopolistic concentration.

That is why Pope Francis declares his opposition to “ideologies which defend the absolute autonomy of the marketplace and financial speculation”. On this point we read in Evangelii Gandium (EG): “In this context, some people continue to defend trickle-down theories which assume that economic growth, encouraged by a free market, will inevitably succeed in bringing about greater justice and inclusiveness in the world. This opinion, which has never been confirmed by the facts, expresses a crude and naive trust in the goodness of those wielding economic power and in the sacralised workings of the prevailing economic system. Meanwhile, the excluded are still waiting”. The moral consequence of this insidious determinism is the plague of moral indifference. “To sustain a lifestyle which excludes others, or to sustain enthusiasm

for that selfish ideal, a globalisation of indifference has developed. Almost without being aware of it, we end up being incapable of feeling compassion at the outcry of the poor, weeping for other people's pain, and feeling a need to help them, as though all this were someone else's responsibility and not our own". The Pope also reminds us that "as long as the problems of the poor are not radically resolved by rejecting the absolute autonomy of markets and financial speculation and by attacking the structural causes of inequality, no solution will be found for the world's problems or, for that matter, to any problems".
In this context, Christian social teaching provides a perspective that strives for an inclusive economy, supported by justice, and the culture of fraternity and reciprocity. With the enormous opportunities provided by technological progress and knowledge, if our societies are faithful to the ideal of the full development of the human person, then they can do better, much better.

2. Recovering the historical roots of the market economy to civilise globalisation
"The channels of communication are not only physical, but moral, too. Straight, easy and safe roads: rivers, and ferry routes; utility work machines, these come first. But we need moral channels too" (Antonio Genovesi, Naples, 1765). Our time is characterised by extraordinary growth in wealth and technology, unknown to past generations. The human family has achieved huge successes in combating deprivation, in the dissemination of information worldwide, and in life expectancy, wealth and education. At the same time, if we compare our potential with our achievements, we cannot be satisfied at a time when almost one billion people, mostly located in sub-Saharan Africa, are still living in extreme poverty. Extreme poverty, misery, deprivation and exclusion have been the human condition for thousands of years, while welfare and prosperity have remained limited to a very small portion of the population to this day. What is no longer ethically acceptable nowadays, however, is the contrast between our impressive capacity to create wealth and resources and the still too high number of people excluded from the possibility of a decent life in terms of welfare and rights. In other words, the problem of inequality is at the heart of the social question today.

This is the social justice that has been at the centre of the CST from its earliest beginnings – Rerum novarum, 1891 – right up to recent documents like John Paul II's Centesimus Annus (1991), Benedict XVI's Caritas in Veritate (2009) and, finally, Pope Francis' Evangelii Gaudium (2013). The market economy has been one of the main tools of social inclusion and democracy in past centuries, but in recent decades, due to the phenomenon of 'financialization', our economic system has been reducing its capacity to increase wealth and opportunities. Much of speculative finance is a network of zero-sum games, if not actual gambling, that deny the very nature of market interactions, namely that of a cooperative network of relationships of mutual benefit. This was pointed out by the great economists of the 17th to the 19th centuries such as Smith, Ricardo, J.S. Mill, Marshall, the Neapolitan Antonio Genovesi and many others. (See L. Bruni and S. Zamagni, "Economics and Theology in Italy since the Eighteenth Century", in P. Oslington, ed., Cristianity and Economics, Oxford, Oxford University Press, 2014).

In the under-soil of our civil and economic culture there are two opposing growing trends. The first is a gradual rapprochement between the culture and languages of the many variants of the capitalist economy. The second trend, in contrast, is a growing opposition based on an ethical evaluation of the market. This leads some to see the capitalist market as the solution to all our economic and civil ills, while others consider it to be the cause of all moral, social and political evil. The first would like a society that is led and managed only, or mainly, by market values and instruments (from the privatisation of common goods to the buying and selling of organs). Others would banish these values and instruments from all morally relevant areas of human life, and keep them controlled and restricted in size.

With globalisation and the financial and economic crisis, this ideological confrontation that has lasted at least two hundred years has entered a new phase. I believe that the new synthesis and new constructive dialogue that we need are something different and are not ideological. It cannot be denied that the history of the real world has taught us that the real markets are much more vital, promiscuous, non-ideological and surprising than imagined and described in both views mentioned. The most significant and lasting economic experiences, those that have increased the true welfare of the people, democracy and the common good all over the world, were all experiences that arose from the market and from civil society. The real market worked well when it pervaded social spaces and when it learned to live in and include the peripheries. The great and long history of the relationship between markets and civil life, between contract and gift, is primarily a story of friendship and alliance.

As thoroughly explained in L. Bruni and S. Zamagni (Civil Economy), Oxford, Peter Lang, 2007), the idea of civil economy – as a theoretical paradigm distinct from the political economy paradigm – has an intellectual tradition in Italian economic thought rooted in the Civil Humanism of the XV century and continued, with alternating success, until its golden period during the Age of Enlightenment in Italy and partly in Scotland. In a few words, what civil economy is all about boils down to that peculiar widespread bent for going beyond pure economic analysis in order to understand the real motivations of economic action. It thus borders with anthropology and gives powerful evidence of the marriage of ethics and economics. Civil economy revives the principle of reciprocity, on which theoretical and empirical research is thriving today.

It should be stressed that the line of civil economy is not confined to a particular tradition or a specific place. Contrary to the political economy perspective – that is typical of the anglo-saxon cultural matrix – the civil economy mode of visualizing the economic problem is virtually universal. I am convinced that the time has come for a critical reflection on the relationship between market economy, wealth creation (and hence the vocation of entrepreneurship), poverty and inequality. I maintain, however, a positive attitude towards the market as an expression of creativity, freedom and, at least potentially, inclusion. At the same time, we believe that the market alone is not sufficient to ensure wealth creation and social justice, because this requires other equally essential principles and institutions, such as reciprocity (civil society) and the redistribution of wealth (government). The market economy was the fruit and result of the encounter between Christianity, Judaism and Greek and Roman cultures. A key role was played by spiritual movements like the Franciscans and Dominicans. There was first the Catholic and later the Protestant “spirit”. The market economy became a civil entity thanks to the interplay between the pursuit of individual interests and the action of institutions.

Nowadays the global market economy is suffering from a lack of proper economic and political institutions. The market itself is an institution, and it produces civil benefits if it is accompanied by other institutions. People's lives become poor and nations fall into decline when societies create, select and nurture “extractive” institutions, developing them and making them grow when there are already “inclusive” institutions present. It is the institutional economic set-up that is decisive in determining whether a country is poor or prosperous. (Daron Acemoglu and James Robinson, Why Nations Fail, grown Business, New York, 2012).

On closer inspection, the boundary between extractive and inclusive institutions is not so sharp, because the two forms coexist within the same community or nation, and, more importantly, they can be transformed from one form to another. In all societies there are institutions created for the sole purpose of looking after the interests of a few groups of people. However, it is still true that many institutions that start out inclusive become extractive with time, and institutions that are created extractive become inclusive. European history gives us clear examples of this, and the present situation of the financial market is equally eloquent.

The general point I want to underline in this regard is that it is culture the fundamental factor determining whether virtous circles brought about by inclusive institutions or vicious circles generated by extractive institutions will prevail in the long run. Why is it the case that the many social revolutions of past times did not bring, all of them, to inclusive institutions? What ultimately differentiate “good” from “bad” revolutions? It is known that cultural norms are acquired through intergenerational transmission and thus persist across generations. They evolve very slowly compared to the speed of change of both political and economic institutions. It is a well recognized fact that market systems are consistent with many cultures, conceived as tractable patterns of behavior or, more generally, as organized systems of values. In turn, the type and degree of congruence of market systems with cultures is not without effects on the overall efficiency of the systems themselves: in general, the final outcome of market-coordination will vary from culture to culture. Thus one should expect that a culture of possessive individualism will produce different results from a culture of reciprocity where individuals, although motivated also by self-interest, entertain a sense of solidarity. In the same way, a culture of cooperative competition will certainly produce different results from a culture of positional competition.

But cultures are not to be taken for granted. Cultures respond to the investment of resources in cultural patterns, and in many circumstances it may be socially beneficial to engage in cultural engineering. Indeed, how good the performance of an economic system is depends also on whether certain conceptions and ways of life have achieved dominance. Contrary to what it might be believed, economic phenomena have a primary interpersonal dimension. Individual behaviours are embedded in a preexisting network of social relations which cannot thought as a mere constraint; rather, they are one of the driving factors that prompt individual goals and motivations. People’s aspirations are deeply conditioned by the conventional wisdom about what makes life worth living.

The truth of the matter is that it is thanks to culture, that mankind does not need to be transformed into a different species in order to adapt to the environment, which human beings themselves have helped to modify. This applies also – perhaps especially – to economic action, which is typically action under constraints. The original structure of economic action, in fact, inevitably envisages some end to be attained following certain procedures – that is, observing certain constraints.

There are two types of constraint: technical/natural constraints, such as the fact that to produce a certain good one must be familiar with the production technology and have the required inputs; and moral constraints, such as the rule that it is not right to exploit your collaborators in order to get better results, or that it is not allowed to betray the trust of others for your own advantage and so on. Now while the natural sciences have the task of determining the first type of constraint, it is the job of culture to set moral constraints. Clearly, different systems of ethics will lead to different moral constraints. This in turn leads to economic outcomes that may be radically divergent. The profound asymmetry of the two sets of constraints should not be ignored, however. While technical or natural constraints tend to become uniform, even between different cultures and institutional environments – which explains the relative ease with which technical and scientific knowledge migrates from place to place – moral constraints depend on, or at the very least are influenced by, the particular cultural matrix that prevails in a particular environment and a particular historical era.

It is exactly for this reason that CST, as an expression of a specific cultural matrix, is not a body of thought given once for all; on the contrary, it needs to be continuously up-dated and reinterpreted. Today, the global economic institutions are experiencing a strong extractive drift. Let's consider some stylized facts in this regard.

First, the political system has not been able, so far, to modify in a significant way the financial institutions responsible of the present crisis. Under these conditions, there is no guarantee that in the next 15-20 years another major bank and financial crisis will not occur. Nobody would deny that we are facing, today, a real institutional void at the global level.

Second, the economic machinery continues to operate in a scandalously unfair way. The growing inequality jeopardizes both the efficiency and the stability of our societies. Inequality has become endogenous to the system and this generates not only economic costs (e.g. speculative bubbles, decreasing rate of investment; consumption distortions), but also social and human costs. It is a fact that an inequality rate exceeding a certain threshold reduces health and increases the mortality rate of people.

Third, the scaffolding of the present market system tends to erode some of the values that sustain our civilization. Indeed, the process of creative destruction in Schumpeter's sense applies not only to firms and to inputs of production, but also to the very values that gave rise to market capitalism in the first place. In particular, the present market system tends to empower the strong over the weak. Fourth, and as a consequence of the above, global capitalism as a model of social order, has increasingly taken the characteristics of a religion, since it posits an overarching goal for human life and seeks to purse it on the basis of a specific concept of human being.

As suggested by P.S Williams ("Christianity and the Global Economic Order", in P. Oslington, ed., Christianity and Economic , Oxford, OUP, 2014), today, the masking of the ideological nature of global capitalism takes place in two ways.

On the one hand, decisions with moral content are presented in technological terms (e.g.: human rights have to be limited for the sake of labour flexibility).

On the other hand, technical arguments are rendered as genuine moral alternatives (e.g.; the market versus State alternative is presented as if it were an ideological question). It is urgent to try to de-mask the ideological nature of the global economic order. Facing these and many other res novae of present times, it is no wonder if the most recent CST does not accept to limit itself to a mere rephrasing of its four basic principles (the centrality of the human person; the common good; solidarity; subsidiarity).

On the other hand, it is not wise to hide the difficulties lurking in the practical implementation of a cultural project targeted at nothing else than "a paradigm shift" in economic thinking. As in all human endeavors, it would be naïf to imagine that certain changes do not create conflict. The differences of vision and the interests at stake are enourmous. It is not by change that a kind of widespread anguish about the future is running throughout society today. Certain pressure groups are exploiting this anguish as a political tool, deriving from it, depending upon the circumstances, either a market-centered Machiavellianism or a State-centered Machiavellianism. CST escapes this dichotomous mode of thinking.

3. Globalisation and the quest to humanise markets.
It is certainly true that globalisation is a positive-sum game that increases aggregate wealth. However, it is also true that it exacerbates the contrast between winners and losers. This fact is linked to the emergence of a new form of competition, unknown until recently: positional competition, according to which the "winner takes all and the loser loses everything" – the so-called "superstar effect" as understood by Shermin Rose. Why is literature on the subject so hotly divided? A credible answer comes from a recent work by Branko Milanovic (The haves and the have-not, New York, Basic Book, 2011) who distinguishes between world and international inequality. International inequality considers the differences in the average incomes of various countries, unweighted ("1st concept of inequality" according to Milanovic) and duly weighted to account for the size of the population ("2nd concept of inequality"). World inequality, on the contrary, also takes into account the inequalities in income distribution within the individual countries ("3rd concept of inequality").

Therefore it is world or global inequality that is increasing as a consequence of globalisation. Indeed, in order to decrease the 3rd concept of inequality, two conditions must be met: i) poor and densely populated countries must grow at a faster rate than rich countries; ii) this must occur without showing an increase in inequality within these countries. Now, while the first condition is more or less satisfied, the second condition is virtually absent. In fact, over the last quarter of a century, the growth rate of the poorest countries has been higher than that of the richest countries (4% versus 1.7%).
So why should we be concerned about the growth of global inequality? It is because it is a principal cause of conflict and ultimately of civil war. Conflict can be defined as "trade gone awry". If a country's gains from trade are not as high as it thinks it should receive, this becomes a major determinant of conflict, which might in the end jeopardise peace itself. That is why the search for a system that integrates socially responsible trade, one that is also capable of taking into consideration the "pains from trade" (T. Verdier, "Socially responsible trade integration", NBER, Oct. 2005), is a duty from which those responsible must not escape. A related aspect concerns the relationship between globalisation and poverty. Over the past two decades, poor countries have increased their participation in world trade, so much so that to-day they can be said to be more globalised than rich countries. Yet, there is very little evidence to prove this relationship and even the scanty evidence available only indirectly deals with the link between globalisation and poverty.

Three general propositions deserve special attention:
a) contrary to the Heckscher-Ohlin theory of international trade, the poor in countries with a lot of unskilled labour do not typically gain from trade expansion;
b) globalisation generates both winners and losers among the poor and this creates social instability to the extent that it destroys social capital:
c) the poor segments of the population obtain the largest benefits from globalisation when national governments endeavour to enhance welfare policies aimed at improving the capabilities of life of their citizens, rather than merely their living conditions.

Humanise the market, don't demonise it: this is the slogan that describes the challenge confronting us today. That is why we cannot consider any solution to the many and grave problems now afflicting our societies that would delegitimize the market as a social institution. If people continue to demonise the market, it really will become hell. Indeed, the real challenge is the humanisation of the market. CST will never be able to accept any step backwards in this regard. Those who cultivate the concept of time as kairos, and not merely as chronos, know that difficulties are surmounted by transforming visions of the future into reality – and not with operations that would wind back the clock of history.

Although the temptation to return to times gone by is understandable, it certainly cannot be justified by those who fully embrace an anthropology based on the human person. While they reject individualism, they can never pass over to the opposite side of communitarianism. In both cases the final outcome would be nihilism.

Finance is a tool that has tremendous potential for the proper functioning of economic systems. Good finance allows savings to be pooled in order to use them efficiently and allocate them to the most profitable uses; it transfers the value of assets in space and in time; it implements insurance mechanisms that reduce exposure to risk; it allows those who have disposable income but not productive ideas to meet with those who, conversely, have productive ideas but no funding. Without this coming together, the creation of economic value of a community would remain in a state of potentiality. Unfortunately, the finance with which we are dealing today has largely escaped from our control. Financial intermediaries often fund only those who already have money (as they can put up collateral equal to or greater than the amount of the loan requested). The vast majority of derivative instruments were constructed potentially to achieve insurance benefits, but instead they are bought and sold for very short-term speculative motives with the opposite result. Paradoxically, they put at risk the survival of the institutions that have them in their portfolio.

Systems that use asymmetric incentives for managers and traders (with profit sharing, bonuses and stock options and no penalty in case of losses) are constructed in such a way that they encourage people to take excessive risks. This makes the organisations for which they work structurally fragile and at risk of failure. A further element of dangerous instability is given by the tendency of these organisations to aim for profit maximisation (which is not the same as seeking to attain lawful and reasonable profit) because they place the well-being of shareholders over that of all other stakeholders. Banks that maximise profit through distorted incentives will find it increasingly profitable to channel resources to the business of speculative trading or to activities whose rates of returns are greater than those in lending activities.

The evolution of finance in recent decades has made it clearer than ever before that markets, especially where the returns to scale are increasing, do not at all tend spontaneously towards competitiveness but towards oligopoly. Indeed, the gradual easing of rules and forms of control (such as that on the separation between investment banking and commercial banking), have gradually led to the creation of an oligopoly of intermediary banks too big to fail and too complex to be regulated. The illusion of regulators has therefore produced a serious problem of balance of power for democracy itself. The Corporate Europe Observatory issued a report in 2014 that highlights the imbalance of power relations between the financial lobbies and those of civil society and NGOs: the finance lobby spends 30 times more than any other industrial pressure groups (according to conservative estimates, they spend 123,000,000 euro per year with about 1,700 lobbyists in the EU). The relationship between the representation of financial lobbies and the representation of NGOs or trade unions in consultation groups are 95 to 0 in the stakeholder group of the ECB and 62 to 0 in the de Larosière Group on financial supervision in the European Union.

This dominance of finance not only in terms of lobbying power but also in ease of access to information, knowledge and technologies has enabled the managers of large financial oligopolies to appropriate huge revenues at the expense of all other stakeholders. In confirmation of how this all distorts the use of resources, there is the recent abandonment of infrastructure projects that would have enabled better mobility of vehicles and people. And, compared to this, the recent construction of a tunnel between New York and Chicago that cost hundreds of millions of dollars in order to reduce by three milliseconds the trading time of some operators that benefit from the laying of the cable to achieve an information advantage that is to the detriment of others. The disasters produced by this kind of finance are obvious to all. In a recent working paper of the International Monetary Fund, (Fabian Valencia & Luc Laeven, 2012. "Systemic Banking Crises Database: An Update". IMF Working Papers 12/163) Laeven and Valencia calculate this effect, following the crisis of 2007, to be an increase in the debt / GDP ratio of 70 percentage points in Iceland and Ireland and more than 20 percentage points in Greece, Germany, UK, Belgium and the Netherlands. In Italy, the impact has been more limited (8%), but the risks are very high given the levels of the Italian public debt. It is also estimated that the financial crisis has caused a gap of 65 billion dollars in the budgets of low-income countries.

No one can have any doubt that this model of finance is largely ineffective as well as harmful (as evidenced by the authoritative reports by Vickers in the UK and Liikanen in the European Union).

4. A CST interpretation of the 2007-8 financial crisis

Two main types of systemic crises can be identified in the history of our societies: dialectic and entropic. A dialectic crisis is one that originate from a radical conflict of interests that society is unable to cope with using traditional modes of resolution. However, such a crisis contains in itself the seeds and the strenghts to overcome it. (Which does not imply that the new social equilibrium achieved at the end of the crisis always represents a real progress compared with the former situation). The American Revolution, the French Revolution, the October 1917 Revolution in Russia and others represent historical examples of dialectical crises.

On the other hand, an entropic crisis is one that leads to the collapse of the system, through implosion, without changing it. This is what happens when a society loses the sense – i.e. the direction – of its moving forward. The words of a great mind help us to grasp the point: "Nor shall we allow the charm of success to seduce us, or we shall be live a foolish traveler who is so distracted by the pleasant meadows though which he is passing that he forgets where he is going". (Saint Gregory the Great, Homily 14). History provides remarkable examples of this type of crises: the fall of the Roman Empire, the transition from feudalism to modernity, the fall of the Berlin wall and the collapse of Soviet empire and many others.

Why is this distinction so important? Because the strategies to be used to solve the two types of crisis are quite different. An entropic crisis is not overcome by technical adjustments or taking only legislative and regulatory measures - even if they are necessary - but by directly facing and solving the problem of the direction. Therefore, a crucial role is played by prophetic minorities for such purpose that can indicate to society the new direction to take by means of additional thought and, above, evidence of the actions. This happened when Benedict launched his famous "ora et labora" and started a new era, that of cathedrals. (The social and economic revolutionary scope of the conceptual plan of Benedictine's charisma will never be discussed enough. Work, for centuries considered the typical activity of slaves, according to Benedict it becomes the right means to achieve freedom: to become free one needs to work. Work is also raised to the same level as praying. As St. Francis said, do not separate laborantes and contemplantes; praying and working must always go hand in hand for everyone).

My argument is that the present crisis is basically of an entropic kind. Therefore, it is not proper to compare - even if the quantitative dimensions are quite similar – the 2007-8 crisis with the one in 1929, which was one of a dialectic type. The latter was in fact caused by human errors made in particular by the monitoring authorities of the economic and financial markets and due to a specific lack of knowledge about how these financial markets worked. So much so that the "genius" J.M. Keynes was fundamental to meet this need. Certainly, even in the recent crisis there have also been human errors - and serious theoretical mistakes as shown in S. Zamagni ("The Proximate and Remote Causes of a Crisis Foretold: a view from Social Catholic Thought", Vatican City: Pontifical Academy of Social Sciences, 2010) – but these were not caused by a lack of technical knowledge, rather were due to a crisis of sense that has affected the advanced western society since the beginning of globalisation.

Various interpretations of the global financial crisis have been offered so far. Most of them focus, albeit from different angles, on its proximate causes. If such an exercise would prove to be sufficient in the case of a dialectical crisis, the opposite is true when one has to explain an entropic crisis. It would be practically impossible to get out of an entropic crisis unless one considers the ultimate factors responsible for it. In this regard, the Encyclical Caritas in Veritate (CV) by Pope Benedict XVI constitutes a sort of intellectual beryllo – in the sense of Nicolò Cusano - by means of which to read and to interpret the res novae of present times.
The encyclical identifies a triple divorce that has occurred in the last few decades in the Western world.

First, the divorce between the economic sphere and the social sphere, which brought to justify the idea that economic activity has no need to submit itself to ethical consideration or social assessment being itself oriented to generate wealth and well-being.

Second, the decoupling between human labor and the origin of wealth, which legitimized greed as a superior form of rational behaviour.

Third, the separation between market and democracy, which provided the foundation of the thesis about the selfreferential and self-regulating nature of markets. In the Wealth of Nations (1776), Adam Smith insisted that "it is fear of losing employment which restrains fraud and corrects negligence".
But this was much before the advent of the third separation above. Today the inverse is more probably true: fear of failure or decline promotes fraud and deceit. According to Caritas in Veritate only by reuniting what has been violently separated it is possible to cope with the many challenges stemming from the crisis. Needless to say, such a perspective points to the urgency to reconsider the anthropological foundation of economic discourse, whose reductionist stance is nowadays perceived by many scholars and

business men as one of the major impediment to both economic and moral progress of our societies. I would like to pause a moment on the second divorce envisaged in CV.

It cannot be denied that the unanticipated spread of greed in our societies in the last few decades has become a sort of cultural habit. According to Judaic-Christian tradition, avarice – a characteristic feature of the postEden world including as its major component greed – is the capital vice that accounts for the great part of secondary scarcity and the resulting conflicts over the distribution of goods. There is a biunique correspondence between avarice and scarcity: on the one hand, scarcity encourages increasingly self-interested forms of behaviour, given that possession of scarce goods increases one's prestige and social esteem; on the other hand, avarice tends to aggravate the various forms of secondary scarcity as a result of its negative impact on the availability of goods, and of the difficulty of distinguishing needs from desires in practice. It is interesting that the Hebrew word for money – the principal object the miser craves for – is damin, which in the Talmud and in cabalistic tradition stands for the plural of 'blood'. Blood only means life as long as it circulates; if it stagnates it leads to certain death. There is a perfect analogy with the metaphor of the well used by Saint Basil of Caeserea in his homily "On the good use of riches" published in the year 370 a.d. Avarice does not permit blood to circulate, just as it does not permit well water to be drawn. But what exactly is it that lies at the root of avaricious behaviour? Or more precisely, what reasons are there for succumbing to the call of avarice, and what leads an individual to act in an avaricious manner?

According to Hume's theory of human motivation, people are only motivated to do something if they want to do it – given that cognition itself is not enough to get us to act. So what one needs to do is to try and understand the nature of the desire to possess and accumulate objects and money. Not all obsessive individuals are avaricious, but there can be no doubt that all avaricious individuals are obsessive. The position of the ancient "Franciscan voluntarism" and, in more recent times, of writers like Bernard Williams and Thomas Nagel, appears convincing: the reasons for acting depend on the desire of the acting party. Each intentionally performed action is thus generated by a desire which provides, as it were, the impulse to act, while the direction that such action takes clearly depends on the means available to the agent in question. What kind of desire does an avaricious individual possess? To avoid any misunderstanding, it should be said that desire is not a mere sensation that expresses itself in some physiological state or other, or a short-lived emotion. On the contrary, to desire something is to miss something (literally speaking, de-siderium means the absence of stars). Satisfying a desire – in our case the desire to possess – thus means (as the etymology of the word once again suggests) "doing enough" (satisfacere) to placate that desire. However, the avaricious individual does not stop at merely satisfying his/her desire for possessing things, but wishes to substantiate this desire, that is, render it a thing (res), thus eliminating the tension created by the pursuit of the desired objects. Why is this?

An examination of the nature of the economic problem offers a rather convincing answer. The underlying principle of economics is that of convenience. Economic convenience derives from an agreement reached through the exercise of free choice (to be convenient originally meant "agree with others on the same point", that is, in the metaphorical sense "to come to an agreement"). Convenience is what makes Man a social animal, one that requires the systematic cooperation of other men. The principle of convenience constitutes the fundamental premise of the division of labour. In this process of cooperation, each person is led to offer their contribution by the consideration of an end that each wishes to achieve. The end may be self-interest, just as it may be the common good; the important thing is that the end is of objective utility.

So, this cooperation among free individuals, in which a plurality of individual choices dictated by subjective interest converge towards one single end of objective utility, comes about through that universal instrument we call “money”, which for this reason is considered the system of means par excellence. Indeed, in common parlance, one says someone “is a person of considerable means” to indicate that the person in question “has a lot of money”. Money is thus the measure of convenience, and for this very reason it becomes a value: economic value as such, in other words, that which serves to acquire the valued goods. As a general exchange value, the attraction of money lies in its potential, and this potential value is preferred to existing value due to money’s indeterminacy. As George Simmel wrote in his The Philosophy of Money: “Money is the purest reification of means, a concrete instrument which is absolutely identical with its abstract concept; it is a pure instrument. The tremendous importance of money for understanding the basic motives of life lies in the fact that money embodies and sublimates the practical relation of man to the objects of his will, his power and his impotence; one might say, paradoxically, that man is an indirect being” (p. 309). It is true, indeed, that money is nothing more than a symbol: as Antonio Genovesi wrote, money is “a sign of wealth”. Yet not only is this symbol pursued, but as a sign of the freedom of choice it is preferred to the actual good it is exchanged for. As we all know, people mind spending money, and yet this is paradoxical since if you spend money, you are judging the good or service obtained to be at least of equivalent value to the money paid. So, an avaricious person is someone who places the openness of potential value higher up his/her scale of values than the closure represented by reality. In the case of the miser, therefore, what is merely one part of human action tends to constitute all of such. Moreover, the part that ought to be a function of Man’s anthropological being, reduces the latter to a mere function of that part. In other words, a miser is someone who is incapable of “cultivating” the passion for possession, which is in itself a wealth of spontaneity and energy. That is, an individual who fails to display to his/her own passion those goods to be desired on the basis of their specific characteristics. In this sense, the miser could be acquiring things, but unlike others he/she lacks any fully-formed reason, and this prevents him/her from conveying to such passion the taste for good things. Whence the culmination of modern-day avarice: the “greed market” replacing the “free market” .

If there is one important lesson that the economic science has learned following the crisis, it is the need to quickly overcome the conventional belief that all economic agents act on the basis of egocentric or self-interested motives. We now know that this assumption is factually incorrect: it is certainly true that, depending on the context and the period in history, the sole objective of a certain percentage of all individuals is the pursuit of self-interest. However, this state of mind cannot be ascribed to all economic agents. Yet, the models of financial theory continue to argue – hopefully not for much longer – that all agents are homines oeconomici. The consequence of this is clear for all to see: the models of mainstream economic thought result in directives that then get “marketed” to the banking and finance sectors. In turn, those managers pulling the strings in such sectors endeavour, with no little technical-communicative ability, to transform those directives into specific products which are then recommended as it were to the vast public of individual and collective investors. Some of these investors are spurred on by a “lust for money”, but many others are led to make choices that they would not normally make if other options were available.

The point is that the mathematical-financial models not only recommended certain courses of action, but also modify people's cognitive maps, as the latest experimental findings in the field of neuroscience clearly demonstrate. Civil society is thus left with the task of re-establishing the links between those operating in the market, after such connections have been awkwardly compromised by the financial crisis. (Note that the Latin term for "trust" or "faith" – fides - literally means "cord", i.e. a substance linking people in a web of interpersonal relations, Antonio Genovesi clearly explained in his Lezioni di economia civile published in 1765).

The problem is how to go about such a demanding task. My suggestion would be to refocus both economic discourse and the new institutional design around the concept of the common good. A concept that was once commonly present in cultural debate, it has been systematically mistaken for the concept of total good or that of collective good, even by the experts. There is nothing more misleading and pernicious than such conceptual muddling. (To remind, while the notion of total good has its roots in the utilitarian calculus and the notion of collective good has its roots in the communitarian thought, the notion of common good was created and is specific of CST). The fact that the notion of common good has experienced a certain resurgence recently, following the events that I have tried to interpret here, is confirmed by a number of signs, and this is certainly encouraging. This should come as no surprise, however: when 16 one becomes aware of the pending crisis of civilization, one is almost forced to abandon all dystopic forms of conduct, and to try new approaches to both theory and action.

5. A word of conclusion

The ultimate sense of the argument developed above is that the search for a way to humanize the economy contains a demand of relationality which one should carefully investigate and satisfy at best if one wants to dispel perverse effects of great magnitude. Indeed, how good the performance of an economic system is depends also on whetter certain conceptions and ways of life have achieved dominance. As a growing number of economic scholars over the past couple of decades have tenaciously stressed, economic phenomena have a primary interpersonal dimension. Individual behaviours are embedded in a preexisting network of social relations which cannot be thought of as a mere constraint, as maintream economists continue to believe. Rather, they are one of the driving factors that prompt individual gools and motivations.

It seems to me that the central problem in the current transition towards a post-Fordist society is to understand how to fare so that individuals may be at liberty to decide the procedures for the supply of the goods they demand. What is at stake here is not so much freedom to decide the overall composition of goods to be produced (more of private versus more of public goods; more merit versus more relational goods), but freedom to decide how that composition should be achieved. This is why one cannot advocate the efficiency principle in order to decide what and how to produce. Undiscriminating admirers of the market as a social institution seem to overlook the fact that it is the very hegemonic expansion of those relations that I called private economy, that will slowly but inexorably destroy the whole system of social norms and conventions which constitute a civil economy, thereby paving the way for the success of new forms of statism.

Today it is urgent to admit that the hypertrophic growth of both State and private market is a major explanation of the many problems that embarrass our societies. Such being the situation, the solution cannot be found in the radicalization of the public economy versus private economy alternative, or neo-statism versus neo-liberalism, but in a healthy flourishing of those forms of organization that shape a modern civil economy.

The most obnoxious consequence of a narrow-minded (and obsolete) notion of market, still predominant to this day, is to lead us to believe that a behaviour inspired by values other than nonegocentric and opportunistic interests inexorably drives economy to disaster. By encouraging us to expect the worst of others, such vision eventually brings out the worst in us. Moreover, in the end it immensely hampers the exploitability of such inclinations as trust, benevolence, reciprocity, since that vision perceives these inclinations as merely inborn peculiarities of human nature, unrelated to the civilization process in progress in our societies.

As A. Wolfe pointed out some time ago with great insight referring to the sphere of the relations that shape private economy: "… The problem with reliance on the [private] market as a moral code is that it fails to give moral credit to those whose sacrifices enable others to consider themselves freely choosing agents. By concentrating on the good news that we can improve our position, rather than the not-so-good, but socially necessary, news that one might consider the welfare of others as our direct concern, the market leaves us with no way to appreciate disinterest".(Whose Keeper? Social Science and Moral Obligation, Berkeley, University of California Press, 1989, p.102).

Since motivations sustaining the principle of reciprocity are motives whose fulfilment is at least as legitimate as the fulfilment of self-interested motives, a truly liberal society should not prevent beforehand - that is, at the level of institutional design – the growth and dissemination of the former to the detriment of the latter, as is foolishly happening today. In the absence of actual - not just virtual - competition among different subjects of supply of the various categories of goods, the citizen-consumer will be left with a reduced space of freedom. One might end up living in a more and more affluent society, more and more efficiently inundating us with commodities and services of all sorts, but more and more "indecent" and, ultimately, desperate. Indeed, the reduction of human experience to the "accountancy" dimension of utilitarian calculus is not just an act of intellectual arrogance; it is disclaimed by actual exprerience in the first place.

CST, at least since the times of the encyclical Populorum Progressio (1966) by pope Paul VI up to EG by pope Francis, is striving to avoid that such an anthropological reductionism should become a sort of benchmark in economic reasoning. This would be really disgraceful for a double set of reasons. On the one hand, because the discipline will prove to be unable to cope with the major problems of present-day societies –growing social inequalities; failure to tackle poverty; environmental degradation; conflicts of identity; etc. On the other hand, because the limited conception of personal well-being and integral human development is a major impediment to innovation of economic ideas and a dangerous shelter for mainstream thought from both factual criticism and competing scientific perspectives. What CST is urging social scientists to adhere to is the spirit of "scholarship of engagement" – in the sense of E.L. Boyer, Bullettin of the American Academy Association, XLIX, 7, 1996 – According to which moral commitment and cognitive interest should always be kept intertwined in order to reciprocally contaminate each other.

Title: Geen christelijke of politieke maar economische economie
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Hierbij reageren we op de recensie door Arnold Heertje van ons visiedocument voor een nieuwe methode die de schrijvers dezes samen met Lans Bovenberg aan het ontwikkelen zijn voor de middelbare school. Een nieuwe methode moet een gevoelig thema zijn voor de mastodont van het economieonderwijs. Beide auteurs hebben les gehad uit zijn methode, net als vele generatiegenoten. Het valt Heertje te prijzen dat hij zich zelfs op hoge leeftijd nog inzet voor het populariseren en onderwijzen van het vak.

Dat het onderwerp gevoelig is, blijkt uit het gekozen frame van Heertje. Onze methode wordt rap weggezet als religieus en politiek getint, waarbij zelfs een verwijzing naar het nationaal socialisme niet wordt geschuwd.

Eigenlijk stopt de discussie hier, maar laten we niet flauw doen. For the record, twee van de drie auteurs beschouwen zichzelf niet als religieus, bovendien stemmen de drie auteurs van het visiedocument op verschillende politieke partijen. De Tweede Wereldoorlog laten we maar even buiten beschouwing, maar we kunnen Arnold Heertje verzekeren dat wij ook allergisch zijn voor het sluipenderwijs indoctrineren van leerlingen.

Grotendeels eens

Opmerkelijk is dat we het ondanks Heertjes grote woorden, toch zeer met hem eens zijn. Zoals hij volkomen terecht zegt past de rol van normen en waarden in de allocatie van schaarse middelen en de behoeftebevrediging van burgers in de evolutie van de economische wetenschap. En het is precies die evolutie die we wensen vorm te geven voor het onderwijs.

Heertje zegt ook terecht dat een vastlegging op een exogeen, door religieuze en politieke waarderingen, exclusief stelsel van normen en waarden uit den boze is. Vinden wij ook en daaraan doen we dan ook niet mee.

Als een boodschap niet begrepen wordt, ligt dat doorgaans aan de zender en niet aan de ontvanger, dus we maken graag van de gelegenheid gebruik misverstanden uit de weg te ruimen en onze methode nog eens toe te lichten.

Economieonderwijs niet kritisch

De evolutie zoals hierboven geschetst heeft weliswaar de economische wetenschap bereikt, maar nog lang niet voldoende de lesmethodes op de middelbare school, ook niet in het boek van Heertje zelf. Daar waar de economische toptijdschriften vol staan met publicaties over sociale normen, vertrouwen, geluk, gedragseconomie en experimenten, krijgen de leerlingen nog voor het grootste deel de standaard neoklassieke theorie opgediend, zonder kritische reflecties op de beperkingen daarvan.
Juist dat maakt het economieonderwijs van nu normatief. Wij willen niet op ons geweten hebben dat hele generaties leerlingen worden opgeleid met de gedachte dat economie gaat over geld, eigenbelang en de ander de loef afsteken. Dit is geen door ons bedachte stroman van het huidige onderwijs, maar krijgen wij

terug als feedback van docenten en leerlingen. Een voorbeeld is dat van de uitleg van het gevangenendilemma leerlingen vaak onthouden dat je de ander vooral niet kunt vertrouwen. Zonder zich dat te realiseren, en ongetwijfeld onbedoeld, hebben methodemakers als Heertje bijgedragen aan dit normatieve doceren van economie.

Wij willen op een aansprekende manier de concepten van de commissie Teulings, de commissie die een kleine 10 jaar geleden met een nieuw programma kwam, een niveau verder brengen, is door een onderscheid te maken tussen theorie en praktijk en manieren te vinden die een brug kunnen slaan tussen die twee.

In theorie werken markten perfect, worden belangentegenstellingen overbrugd, externe effecten beprijsd en ontstaan vormen van handel en samenwerking die de welvaart vergroten. Het is goed om die theorie te kennen en tegelijkertijd te snappen waar de beperkingen vandaan komen. Veel leerlingen zien zelf dat de economische praktijk zich niet altijd gedraagt zoals de theorie voorspelt.
In het eigen leven van een leerling blijkt samenwerken wel nuttig maar lang niet zo simpel, zelfs niet op kleine schaal. De verleidingen zijn groot, misverstanden en conflicten zijn gauw geboren. Ook op een hoger niveau gaat het niet van een leien dakje. In het bedrijfsleven gaan veel dingen goed, maar zien we ook graaigedrag, woekerpolissen en fraude. Op macroniveau waart er een economische crisis en is samenwerking op Europees niveau knap ingewikkeld.

Economie=relaties
In onze beoogde methode (we beginnen na de zomer met de ontwikkeling) is er een voortdurende wisselwerking tussen de mogelijkheid van welvaartcreatie en de kans op welvaartvernietiging. Zo zijn informatie en risico best handig omdat je solidariteit kunt organiseren en verzekeringen kunt sluiten. Economie gaat over het benutten van verschillen, dat is een fundamenteel inzicht met vele verschillende toepassingen. Maar asymmetrische informatie kan ook misbruikt worden doordat degene met meer informatie zichzelf verrijkt ten koste van de ander.

Al vanaf Adam Smith gaan alle economische vraagstukken in hogere zin over de spanning tussen het benutten van mogelijkheden en de gevaren van misbruik. Vrijwel al het economische beleid staat in dienst van het verhinderen van misbruik en het benutten van kansen, of het nu gaat om mededingingsbeleid, monetair beleid of innovatiesubsidies. Zowel de markt als de overheid kunnen benut worden om die spanning te verlichten, maar we zijn ook niet blind voor de rol van sociale normen en waarden die vooral belangrijk zijn op kleinere schaal wanneer niet transacties maar relaties dominant zijn.

Door deze insteek krijgen leerlingen een rijker beeld van wat ons vak inhoudt en worden ze beter voorbereid op de wereld die op hen afkomt. Op de vraag waarom Heertje zelf niet heeft geprobeerd deze ambitie in zijn methode te realiseren moet hij zelf maar antwoord geven. Het vak economie op de middelbare school kan beter. Wij zijn er van overtuigd dat er een wereld te winnen is.