

What now? The future of finance

Matt Crossman

Recent events in the markets have been unprecedented in terms of the volatility of price movements and the government action needed to insure society against the meltdown. Starting in the USA, but quickly arriving in the UK with the collapse of Northern Rock, the credit crunch hit with full force almost a year later. In the wake of Bear Stearns in the US came Lehman Brothers and AIG. HBOS and Bradford & Bingley have been major domestic casualties.

Bonanza of credit

While governments have sweated to execute rescue plans for ailing banks, many people are reflecting on the roots of the crisis. In essence, what happened can be characterised as an unsustainable bonanza of credit manifested in a glut of sub-prime mortgages, loans and store cards. Questions have rightly been asked about the role of regulators in allowing such a risky situation to underpin economic growth. Bigger questions must also be asked of political actors and society as a whole.

Many saw the crisis coming, but few made moves to call it to a halt. We must surely question a system of incentive and risk management that compelled those uneasy with the situation to participate in it against their better judgement.

While it would be mistaken to underestimate the social costs of the economic slowdown, we can also search for the positives, however few. In times of crisis, when people's mental maps of reality are challenge, voices calling for new forms of renewal can be better heard. Just as the Bretton Woods institutions emerged from the devastation of the Second World War, a similar opportunity to shape the institutional future is now upon us.

Can we engage the mainstream investment community with the kind of long-term value-creation ideas that have been pushed in more ethical circles for years? And can we bring about a revamped financial system that looks not only at the size of growth achieved but also at the quality and sustainability of that growth?

Green New Deal

The credit crisis is not the only challenge facing society. This fact is recognised by the panel of thinkers, economists and politicians making up the Green New Deal Group. Inspired by the Roosevelt New Deal that worked the US out of the Great Depression, the group's report, *A Green New Deal*, notes the coincidence of climate change, peak oil and the credit-fuelled financial crisis and calls for co-ordinated action across all three challenges.¹

The Green New Deal's response is a bold programme aimed at pulling society back from the brink. It asks why, if public money can be used to shore up the private banks, we shy away from using it for genuinely worthy causes. Traditional economists usually play off the low transaction costs of market-led resource allocation against interventionism – but look at the bill the private market has left us with in the form of the government bail-outs.

The Green New Deal Group advocates progressive taxation on high-impact sectors. Creation of an oil legacy fund would be paid for by windfall taxes on oil and gas producers; although the oil price has fallen sharply in recent months, long-term divergence of supply and demand means these lows will be short lived. Such taxation would be accompanied by a reduction in interest rates for financing renewable energy technologies and core infrastructure. The approach can be summarised as returning finance to its role as servant rather than master of society.

Critics

In the wake of the historic US election, the Obama camp has also talked big on job creation through spending in the renewable energy and clean technology sectors. Yet the idea of Keynesian-esque public spending to solve a macroeconomic crisis is anathema to some, and the Green New

Deal has its critics. A recent *Economist* article stated that while there is a case for combating climate change and even for an economic boost through public spending, subsidising renewable energy would be the wrong solution. Subsidy, it is said, involves political or regulatory choices in terms of resource allocation, which is less efficient than outcomes achieved by the market.

But as the recent crisis shows, a globally connected market is capable, when left to its own devices, of creating vast potentially toxic bubbles of 'wealth', disconnected from the real world, whose demise has real world effects. Blind faith in markets no longer stands up as a solution to our current problems. We need a new synthesis of economic thinking and practice, and to apply it within the limits imposed by the finite ecosystem on which life depends.

Role for faith-based investors

Faith-based investors have a crucial role to play. Historically the church has had strong views on usury, and many ethical investors have shied away from the irresponsible lending at the heart of the crisis. Investment must focus on real value rather than bubbles of paper wealth, and church-based investors should engage with the banks to encourage more sustainable models for future growth.

Crucially, the church should continue to stress the importance of the concept of 'having enough' – embracing the example and teaching of Jesus to live simply, in communities that are stable and life affirming, pursuing what is spiritually meaningful rather than more and more material consumption and wealth. Many faith-based investors will have been involved in micro-finance, and much can be learned from their conservative and ultimately more responsible lending models.

We should now push for wider acceptance of the UN Principles for Responsible Investment,² promoting long-term responsible shareholder ownership. And let us not forget the pressing needs of the Millennium Development Goals. Aid budgets, already small, must not be cut back. Our duty is to deliver sustainable growth to developing countries, not pass on the shock from our financial excesses.

The church and its investors can also make a key contribution by promoting the kind of economic growth that contributes to social equality. Our values must now be worked out in practice – in our lives as workers, investors and community members – with renewed vigour. Among those who campaign for change - whether on the environment or social justice - the complaint has often been that people in power are not listening. Now that our political and economic leaders are desperately seeking sustainable solutions, faith-based investors should speak up for a more just, values-led system of international trade and finance as if people and planet mattered.

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Notes

1. The Green New Deal Group, *A Green New Deal: Joined-up policies to solve the triple crunch of the credit crisis, climate change and high oil prices*, New Economics Foundation, London, July 2008, www.neweconomics.org.uk
2. UNEP Finance Initiative and the UN Global Compact, *Principles for Responsible Investment*, www.unpri.org