Funding the Future

If Mark Carney believes in ethics what is he going to d...

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This is the introduction to Mark Carney's speech to the Inclusive Capitalism conference, yesterday. It was published by the Bank of England.

Introduction

Inclusive capitalism is fundamentally about delivering a basic social contract comprised of relative equality of outcomes; equality of opportunity; and fairness across generations. Different societies will place different weights on these elements but few would omit any of them.

Societies aspire to this trinity of distributive justice, social equity and intergenerational equity for at least three reasons. First, there is growing evidence that relative equality is good for growth. At a minimum, few would disagree that a society that provides opportunity to all of its citizens is more likely to thrive than one which favours an elite, however defined. Second, research suggests that inequality is one of the most important determinants of relative happiness and that a sense of community — itself a form of inclusion — is a critical determinant of well-being. Third, they appeal to a fundamental sense of justice. Who behind a Rawlsian veil of ignorance — not knowing their future talents and circumstances — wouldn’t want to maximise the welfare of the least well off?

The problem: the growing exclusivity of capitalism

This gathering and similar ones in recent years have been prompted by a sense that this basic social contract is breaking down. That unease is backed up by hard data. At a global level, there has been convergence of opportunities and outcomes, but this is only because the gap between advanced and emerging economies has narrowed. Within societies, virtually without exception, inequality of outcomes both within and across generations has demonstrably increased.4

The big drivers of globalisation and technology are magnifying market distributions. Moreover, returns in a globalised world are amplifying the rewards of the superstar and, though few of them would be inclined to admit it, the lucky.

Now is the time to be famous or fortunate.

There is also disturbing evidence that equality of opportunity has fallen, with the potential to reinforce cultural and economic divides. For example, social mobility has declined in the US undercutting the sense of fairness at the heart of American society.

Intergenerational equity is similarly strained across the advanced world. Social welfare systems designed and enjoyed by previous generations may prove, absent reform, unaffordable for future ones. And environmental degradation remains unaddressed, a tragic embarrassment now seldom mentioned in either polite society or at the G20.

To maintain the balance of an inclusive social contract, it is necessary to recognise the importance of values and beliefs in economic life. Economic and political philosophers from Adam Smith (1759) to Hayek (1960) have long recognised that beliefs are part of inherited social capital, which provides the social framework for the free market.

Social capital refers to the links, shared values and beliefs in a society which encourage individuals not only to take responsibility for themselves and their families but also to trust each other and work collaboratively to support each other.

So what values and beliefs are the foundations of inclusive capitalism?10 Clearly to succeed in the global economy, dynamism is essential. To align incentives across generations, a long-term perspective is required. For markets to sustain their legitimacy, they need to be not only effective but also fair. Nowhere is that need more acute than in financial markets; finance has to be trusted. And to value others demands engaged citizens who recognise their obligations to each other. In short, there needs to be a sense of society.

It all sounds great.

Then he offers his solutions, beginning with:

Central banks can contribute in two areas. First, our core macroeconomic objectives promote social welfare. Second, we can help to create an environment in which financial market participants are encouraged to think of their roles as part of a broader system. By building a sense of responsibility for the system, individuals will act in ways that reinforce the bonds of social capital and inclusive capitalism.

And for the detail? He wants regulation to end too big to fail, but the government has already ducked that - and it's ineffectual measures won't happen for several years yet. He wants better market transparency to stop abuse, but any hint of transparency is opposed by the City and the government (just look at country-by-country reporting). He wants to reform compensation packages, but the government has taken the EU to court on this issue. And he wants a 'sense of vocation and responsibility'.

So we're back to no change and a bit of warm CSR, and bluntly, that's the cowards way out.