Observatoire de la Finance

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English

Manifesto of Observatoire de la Finance

For finance that serves the common good

In March 2008 the Observatoire de la Finance published its manifesto entitled 'For finance that serves the common good.' Below is a second version of this manifesto that takes account of the many comments received over the past year and reflects what has become only too apparent during that year – namely, the widespread reluctance to see the crisis as anything but a mere cyclical upheaval, the helplessness of both the public and the private sector in the face of it, and the failure of purely technical measures to control it.

Today we must regain control of the future before it is too late – reverse the financialization process and ensure that finance once again operates in the interests of human dignity and progress. The manifesto aims to alert men and women of good will to the danger that threatens our precious economic and political freedom because we have succumbed to the illusion that 'greed is good'. Even if 'greed' may appear to boost economic efficiency, it can only do so by profoundly undermining the very foundations of society: trust, respect and solidarity.

The current crisis is not just economic or financial – it is system-wide. It is not simply a matter of the financial sector coming back into line with the 'real' economy. The crisis is the outcome of years of unremitting pressure that has seriously weakened the material, social, intellectual and ethical foundations of the socio-economic system based on political and economic freedom. If this systemic meltdown is not swiftly and correctly tackled, it may end up discrediting the market economy, whose primary vocation is to promote human dignity and happiness.

Free societies never stand still; they are engaged in a constant, decentralized search for arrangements that are best suited to present needs. Today is no exception. Ever since the mid-1970s, finance has played an ever greater role not only in the economy, but also in the world views and aspirations of political, economic and social players. This rapid spread of financial practices and techniques, together with the attitudes and values they engender, has been termed 'financialization'. Financialization has transformed both our economy and our society by increasingly organizing them around the pursuit of financial efficiency and a linear view of time that is peculiar to finance. Today's crisis has brought this system close to breaking point, and there are some who see it as 'the end of an era'.

It is therefore vital not only to make a diagnosis but also to identify possible lines of action for the future.

The Observatoire de la Finance is a non-for-profit foundation under Swiss law, based in Geneva, established in 1996.

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THE DIAGNOSIS

Over the last thirty years most Western countries have based their promises of pensions and retirement benefits on savings invested in financial assets over long periods. The long-term viability of this arrangement now depends on the profitability of successive generations of financial instruments.

A growing volume – in both absolute and relative terms – of the added value generated by the productive economy is therefore being channelled into returns on financial investment. This first brought pressure to bear on large quoted businesses, through the doctrine of 'shareholder value'. These then passed the pressure on in three interconnected directions: to their staff around the world, under increasingly fierce managerial pressure to keep improving their performance; to consumers, under growing pressure to innovate as a result of ever more sophisticated marketing techniques; and to smaller businesses, suppliers and distributors in both the North and the South, which also found themselves under often unbearable pressure to perform. This pressure – which at first only affected the financial sector – thus spread to the rest of the economy and from there to the whole of our society, our culture and our everyday lives. The Western world now finds itself in the paradoxical situation that future financial performance requirements are compromising its present freedom and autonomy, including its political autonomy. The current crisis has shown this 'radiant future' of promised performance to be as much of an illusion as the erstwhile communist utopia.

Financialization has been greatly facilitated by the political appeal of deregulation and by the 'laws', 'theorems' and so forth that Nobel prize-winners have put forward in support of financial rationality. The steamroller of the 'efficiency ethos', validated by supposedly scientific truths, has steadily crushed moral and ethical resistance. Today's systemic meltdown has to be seen in this light.

Financialization has led to the almost total triumph of transactions over relationships. Contemporary finance has prevailed because it has carried the pursuit of 'capital gains' – the use of transactions to realize projected future returns with immediate effect – to extreme lengths. At the same time, the patience, loyalty, sustainability and trust on which relationships depend have been undermined, and distrust has become more widespread. For a while this was concealed by the liquidity that was needed to perform the transactions, but in mid-2007 the less organized markets suddenly ran out of liquidity – and trust.

The 'efficiency ethos' has gradually worn down moral resistance and become the ultimate criterion of judgement. The extreme focus on efficiency has resulted in internal organizational procedures in which tasks and responsibilities are assigned so specifically that staff lose sight of what their work actually involves. This has led to widespread 'ethical alienation': staff no longer wonder, or care, whether their work is meaningful or justified.

When separated from moral considerations, the 'efficiency ethos' has led to increasingly crude manifestations of greed. This has created more scope for the selfishness that is inherent in human nature. Relationships of trust are all too often sacrificed to one partner's wish to get out while the going is good. Such barefaced acts of betrayal or disloyalty risk destroying what is the essential mechanism in any free society or market economy, namely trust between people. The free market,

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based on players' sense of responsibility, is making way for a 'greed market' which will in turn require escalating controls, rules and procedures in both the public and the private sector. This will not only be very costly, but will make players even less willing to take responsibility for their actions.

POSSIBLE LINES OF ACTION

This diagnosis suggests that the fundamental values of freedom of judgement, responsibility and solidarity – on which the common good depends, and without which a free and humane society cannot exist – are now under threat. This is not just a question of 'capitalism with a moral face'. The economy must be put back in its proper place, which includes its place in relation to government.

- **The reality, methods and morality of the world view behind contemporary economic and financial theories must be critically assessed**. This may end up challenging the dogmatic focus on economic and financial efficiency and justifying renewed ethical and political concerns about the common good. Where appropriate, the results should quickly be made an integral part of economic, managerial and financial training courses. At the same time, they should lead to a redistribution of research and educational resources that will encourage a fundamental reform of economic thinking.
- **We need new incentives to develop long-term commitments in all areas of the economy and the financial sector, so that fewer relationships will be destroyed by untimely transactions in the interests of short-term gain**. A new balance must be struck – in both qualitative and quantitative terms – between relationships and transactions, both of which are essential to society. Making transactions more 'sticky' would also encourage relationships and efficient production rather than efficient allocation. This could lead to a rediscovery of the benefits of 'shortening transaction chains'. This huge undertaking would have implications in many different fields: finance, taxation, employment, the environment, local development and so on.
- **We must introduce methods and resources that will allow us to break free from economic and financial timeframes** and eventually loosen the stranglehold of actuarial forecasts and other constraints which excessive returns on capital have imposed on production and society. This will require great political courage and integrity, since the professional interests of financial intermediaries may be threatened.
- **The financial sector must be stabilized and restructured** so that it can perform its two key functions on behalf of the economy and society, namely channelling savings and financing productive investment. This may make the sector a good deal less complex and lead to closer scrutiny of the economic and ethical justifications for certain kinds of remuneration.

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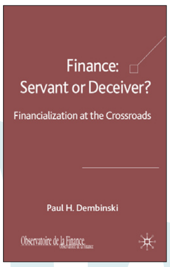
The question of how to divide up the damage caused by the crisis must be swiftly dealt with. This needs to be done without preconceptions and with due regard for fairness, especially towards the poorest and weakest, as well as future generations. The full range of possible instruments, from taxation to money creation, will need to be looked at dispassionately. Consideration must be given to the question of how the damage should be divided up between the North and the South, taking account of complementarities as well as interdependencies between them.

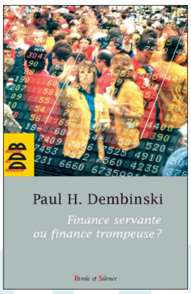
There are now repeated calls for tighter regulation of the economy, and above all the financial sector. Reduction of the role of government to that of a mere ‘night watchman’ has allowed the world to be taken hostage by private interests. However, excessive trust in ‘minimum government’ should not be replaced by its converse, a naïve faith in the omnipotence of government. The common good cannot be achieved by mere regulation, but only through daily efforts by private players who take their values and their responsibility to society equally seriously.

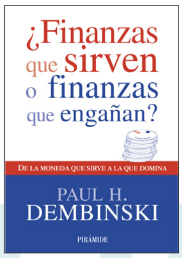
Our publications:

The quarterly of the Observatoire: ***Finance & the Common Good/Bien Commun***

Report of the Observatoire de la Finance:







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