Finance and the Common Good

FINANCE *AND THE* COMMON GOOD

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Amsterdam University Press

The publication of this book is made possible by grants from The Goldschmeding Chair (Vrije Universiteit, Amsterdam), Templeton World Charity Foundation, Inc. & De Stichting Dr. Abraham Kuyper Fonds

Cover illustration: “Map of the Beemster Polder, Lucas Jansz. Sinck (1664). From the collection of the Dutch National Maritime Museum (Scheepvaartmuseum).”
Cover design: Michiel van Veluwen
Lay-out: Michiel van Veluwen

ISBN 978 94 6372 791 4
NUR 784

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Recommendation

By Wopke Hoekstra

Dear reader,

It is an honour to me to recommend to you the important contributions that have been compiled in this publication. I appreciate the efforts of Socires and its partners to broaden and deepen the debate about our financial sector and their quest for a more resilient system. A financial system that is less prone to risks, to boom-and-bust cycles, less debt-driven, and more geared towards long term value creation. Its vital importance to our society, our economy and even our culture deserves such an approach and effort.

In the past forty years, and especially in the aftermath of the 2007-2009 crises, we have witnessed a growing and fundamental imbalance in the relationships between finance, state and society. After the crisis, several measures were taken to restore the health of the financial sector. For example, capital buffers have been strengthened, there are new agreements on bail-in and we introduced the supervision of the product development process. These and other improvements are the result of stricter rules and requirements by the legislator and the regulators, but partly also of initiatives taken by the sector itself, such as introducing disciplinary law in the banking sector.

That, I would say, is a sign of good work towards a more serviceable financial sector as well as a more resilient sector. Still, we have to be alert on problems that might occur and we must be better equipped to reduce the damage to society when they do occur.

And still, we can ask, has the financial sector fully managed to regain the confidence of society? The answer is: no. Despite all the measures taken, in the end it is also a challenge for the sector itself to show that the culture has really changed, that they, for example, do not abuse information advantage on the customer, or that they no longer pass on risks to the taxpayer. It is important that the sector itself takes the lead in restoring trust in financial institutions. This means that the sector does not only act on laws and regulations, but also develops initiatives to create standards that are convincingly suited to social expectations and that they are independently accountable for realizing these standards.

As indicated by the Financial Stability Committee, the European Systemic Risk Board and the European Central Bank, the present atmosphere in the financial markets is not without risks. Because of the relatively loose monetary policy and the global economic recovery there is an almost euphoric mood in the financial markets. This is reflected in low volatility and rising asset prices. Low volatility however can give a distorted picture of the risks. From past experience we know, that it is those quiet periods that imbalances build up. Therefore, as the saying goes, we have to 'fix the roof while the sun is out'.

When market sentiment suddenly changes, for example due to unexpected geopolitical events or a faster than expected monetary exit, sharp price corrections in the financial markets may ensue. The Dutch financial sector is also vulnerable to this, for example through losses on investment portfolios or through pension funds and insurance companies, or via refinancing risks of banks.

In our daily operation, bankers, entrepreneurs and politicians have different responsibilities. Each one of us has its own tasks assigned. But on a higher level, we share the responsibility for the wellbeing of our society and for passing on a beautiful and resilient society to the next generations. That is why this concept of a European, or Rhinelandic arrangement in the triangle of Finance, State and Society is spot on.

We can't leave this discussion to the financial sector alone, or to politics, let alone to just those critics from outside who do not contribute to a viable sustainable alternative for a long time ahead of us. Because that is what we need and that is where our reflections and dialogue should be about: the question whether we are followers in this debate - or can we take the lead, preferably on the basis of inspiration and values, which are at the core of own, identifiable European convictions and values.

I wish you every success in your efforts to develop such an approach in finding a new balance between the interests of the sector, the economy as a whole, the society, the common good and the fostering of a broad, at least European partnership for the implementation of the sustainable development goals, as is also laid down in the current Coalition Agreement of this Cabinet.

Introduction – Finance and the Common Good

By Kees Buitendijk and Cor van Beuningen

In his visionary cultural study, *The Philosophy of Money* (1900), philosopher and sociologist Georg Simmel states: 'Life teaches us all about money; money teaches us all about life'. Simmel's thesis is that anyone seeking to understand modern society should study the phenomenon of money, and vice versa. As we, in this book, try to understand life in relation to money, or, more specific, to understand what happened *to* and *through* finance in modern society, Simmel gives us a proper first stepping stone; a discourse for understanding the deep cultural embeddedness of our money – and the financial sector. Before we introduce both the aims of this publication and our fellow contributors, we will first use Simmel's thesis to elucidate the thematic background of our writings.

Simmel argues that money is 'function without substance'; it is a mere instrumental expression of the relationship between subject (the human being) and object (his/her environment). As an instrument, however, money allows subjects to invest 'objects' (products, services and relationships) with abstract value, regardless of their particular, individual qualities. Objects can then be quantitatively exchanged, and hence be made uniform. This is how money, as a transparent and universally intelligible medium, emancipates the subject, as it liberates from natural or social restraints. And in this way, the abstract instrument of money can provide societies with a vigorous energy.

Simmel nevertheless also observed - already at the beginning of the twentieth century - that money was increasingly becoming a 'great disruptor'. Although money is 'simply' a quantitative expression of individual qualitative relationships, there is no indispensable connection between the two, and the instrumental, extrinsic function therefore has the tendency to detach from exactly the intrinsic qualities it expresses. Money in itself inherently tends towards becoming *more* essence (function) and *less* substance. This is already exemplified by the changing appearance of money: from seashells and cattle, via coins and bills, to scriptural money and bitcoins. Simmel argues that in this way, the greatest blessing bestowed on us by modern money – the possibility of exchanging 'things' – also poses the greatest danger to our culture and society. Money only expresses completely interchangeable, anonymous, and functional characteristics, as these *are* its own functions. But by doing so, it hides the concrete reality of 'value', or the *valuable relationship* between subject and object. Money itself obscures the relationship between man and the world.

Paradoxically, next to obscuring our disposition of value, money also symbolizes it. Or, as Simmel states it: 'money is the adequate expression of the relationship of man to the world'. For the more abstract money becomes – and with it, the relationship it expresses between subjective *valuations* and objective *values* – the harder it becomes to concretize value. In modern times, abstract money allows us to value any object by price, but the price of an object will no longer necessarily tell us something about its value. It is therefore the triumph of the amorphous availability of *everything through function* over the individual significance of *anything by substance*, as explicated by our money, that we, modern people, will have to struggle with, according to Simmel.

When considering modern times, it is evident that culture and society have changed drastically over the last forty-odd years. Radical shifts in domains such as technology, economics, (geo)politics, and (social) media have turned the world into a global village. One exponent of these shifts has been the immense growth of the global financial sector. On the one hand, this process of financial globalisation has gone hand in hand with a considerable worldwide net growth of wealth; on the other hand, as the financial crisis of 2007/8 has shown, there are serious and harmful downsides to this global financial interconnectedness. In the wake of the crisis it has become painfully clear how 'real' financial products can turn out to be, (again) proving their 'value'. Anyone who all of a sudden is unable to pay the mortgage instalments will find that finance is not all that abstract.

For obvious reasons, the adverse sides of the globalized financial sector have been the main focus of political action, media coverage and public debate in recent years. Public resentment with the sector was and still is quite large and, at least since 2008, it has been under close scrutiny by the polity. And not without results: things *have* changed since the crisis. Stricter regulation, more substantive external monitoring and higher capital requirements, as well as increased attention for CSR, ethics and culture, to name a few issues. And yet, in the past months and years, there is one question that returns again and again: has anything *really* changed? Have technical, legal, and functional measures done the job? Or are the underlying social dynamics, the culture, and the ethics of the financial sector virtually the same as they were before the crisis? Even more fundamentally, what was the real problem in the financial sector to begin with? Was it a 'technical' problem? Institutional? Individual? Cultural? Or ethical? And did it only affect the financial sector, or was it more widespread – affecting other commercial industries, the government, and society itself?

Paul Dembinski, director of the Swiss *Observatoire de la Finance*, connects Simmel's theory of money to the dynamics in society as exemplified by the rise and fall of the financial sector in the past few decades. He proposes the term 'financialisation': the increased dominance of financial (functional) motives in the domains of economy and society. Or, in his own words: 'the almost total triumph of transactions over relationships'. Following Dembinski's interpretation of Simmel, it is clear how the idea of functional money connects to the process of financialisation. Money as mere function becomes ever more abstract, shapeless – *fluid*. This abstract money brings us comfort and ease, as it is safer and easier to handle (re digital banking), and it affords new financial instruments. But following this same 'functional (financial) logic', abstract money penetrates easily and deeply, and almost irreversibly, into the organization of our societies. Accompanied, and strengthened by, the many other technological, cultural and geopolitical developments of the last decades, money has been able to abstract ever more qualitative values, extending to domains where money was not present hitherto. *That which is fluid flows wherever it can*; a financial logic has seeped into all capillaries of our society. We now see 'our world' through a financial perspective; all has come to stand in the light of money.

Although it is clear that the dynamics in the financial sector are the offspring of a broad societal evolution, it is safe to say that it now also functions as a catalyst, if only for the sector being a prime example of a domain where functionality overrules relationships and the value of concrete social interdependencies has become obscured by an abstract shroud of complexity, as was clearly displayed in the aftermath of the mortgage crisis. Furthermore, the financial sector itself has proved to have (had) a tendency to develop financial instruments that justify and consolidate unbalanced relationships, thereby further stimulating the cultural financialisation.

'What has been seen cannot be unseen' the saying goes. Thus, it is impossible to simply unsee our financialized perspective. We can however strive to elaborate new perspectives. That is why this book pursues *Finance for the Common Good*. We, the editors of this volume, believe that no single discours can account for the co-evolution of finance, economy and society in the last decades, inextricably intertwined as it has been with technical, political, legal, psychological, social and cultural developments. Hence, it makes no sense to demand change only from the financial sector, as some have falsely done. We do, however, believe that the term 'financialisation' gives adequate expression to the direction taken by modern societies in the past four or five decades, and that this is evidently made visible in and around the financial sector. We – society – have made money and with it, the financial sector, too much of a mere 'function'. The result has been a 'finance' that only benefited the 'financial good'.

Fortunately, further financialisation is not inevitable; our degrees of freedom are not (yet) exhausted. As editors, we are convinced that this is especially true for the countries that have strong roots in the rich tradition of the Rhineland model, that of the 'Gemeinschaft', the 'Commons', or the 'Polder'. This is a geographic- and cultural area where relational finance could still be a viable organisational principle. In this volume, we therefore wish to explore the possibilities for a healthy Rhinelandic arrangement vis-à-vis an all-too financialised global village. Our main question in this is: how can the financial sector once again help achieve sustainable relationships and social ties? And under which circumstances, in what kind of environment, can such a change take place? Can we re-actualise the

Rhineland model to enter a new social era, one in which the government, the financial sector, businesses, and society can complement one another and enable human flourishing, a vital society, and a healthy planet?

The initiative for this book was taken by the Socires (*Soci*ety & *Res*ponsibility) foundation, an independent think tank engaged with questions at the interface of culture and society. The book reflects the findings of our *Ethics and Finance* programme, which took place between 2015 and 2018. This programme is now continued under the title *Finance and the Common Good*. The various authors who have contributed to this book were all involved in the programme at some stage. They were all invited to share their thoughts in a written contribution on the topic. We are very thankful for their contributions, at our events as well as in this particular volume.

Modesty with regard to the impact of this book is in order. We do not pretend to come up with any kind of solution to the financial sector. There are plenty of solutions already, offered by just as many commentators. We believe that at the moment, there is a need to develop an appreciation for the complexity of the issues at hand. Furthermore, we believe it is necessary to foster willingness in all interested parties to enter into dialogue on these issues. We must come to appreciate that everyone must change in some way or another, to ensure that nothing stays the same. This book is meant as a means to clear some of the way on the journey towards finance for the common good.

The book consists of four parts, which are preceded by an essay by former President of Socires, **Mr. Jos van Gennip**. He will introduce the theme of the book and explain the 'Socires approach', in which he also clarifies why it is that Socires believes it is able to make a sensible contribution to the current debate on the financial sector. Then, in **Part 1, Finance and Financialisation,** five authors will investigate what financialisation is all about and how it impacts the financial sector in relationship to society and the state. Former Dutch Minister of Finance **Wouter Bos** looks back at the financial crisis of 2008 and its aftermath, concluding with a trenchant question: do we really need another crisis to finally learn our lessons? **Professor Dirk Bezemer** describes the socio-economic history of financialisation and the disastrous effects this process has had. He shows us how everything of real value, by financialisation, has actually become, paradoxically, financially less valuable. **Professor Eelke de Jong** continues this line of thought and adds: a truly honest and open dialogue on financialisation is imperative, especially in politics. As political unwillingness to intervene was one of the causes for the previous crisis, politicians should now draw their conclusions and act to prevent another one. Independent advisor **Roland Kupers** connects ideas about financialisation and the financial crisis to systems- and complexity theory. He considers the possibilities such theories offer with regards to restructuring our economic system. He believes it is about time that such a reconstruction of the financial sector takes place. **Professor Govert Buijs** argues that the failure of institutional order – by which he explicitly refers to the financial sector – is at the origin of populism and political unrest. He argues that restoring the 'economic trinity' is the first step towards a revitalisation of relationships within society.

The central question of **Part 2, Finance and Relations**, is whether relationships can be placed at the heart of the financial sector. **Professor Lans Bovenberg** argues that things already go wrong in secondary-level education. If we teach the youth about a world of markets and competition, it should be no surprise that when they reach adulthood, they will interact with the world according to these principles. Prof. Bovenberg suggests that we approach economics and the financial sector from a relational perspective. **Cor van Beuningen and Kees Buitendijk**, of the Socires' Finance and the Common Good program, reflect on the phenomenon of financialisation with relation to culture and society. They also discuss the various excesses of financialisation and the possible ways of inverting negative developments: to move toward Finance for the Common Good. **Professor Johan Graafland** discusses the effects of relational thinking on our economy and on our society, asking whether market and morals, or the economy and relationships, are compatible in the first place. **Christiaan Vos**, philosopher and fiscal-economist, addresses a similar question. He argues that the role of ethics in society is to prevent all kinds of harm, but in finance ethical considerations seems to be no longer key.

To prevent immoral outcomes of business decisions we need to re-enable employees to bring morality to the work floor.

In **Part 3, Relational Finance: Regulation, Policies, Practice**, we discuss the implications of relational finance, with particular focus on the way it would take shape in various domains of finance. **Theodor Kockelkoren**, former member of the board of directors of the Dutch Authority for Financial Markets (AFM), observes a collective obsession with supervision and regulation, which ultimately has the paradoxical effect of undermining morality. He argues for value-driven supervision. **Professor Sylvester Eijffinger** looks back on the work of the Maas Committee back in 2009, asking which changes have (not) taken place in the financial sector as a result of its findings. According to him, solid, experienced professionals with a strong backbone are needed to curb the risk appetite inherent to banking. **Carla Moonen**, former Chair of the Pension Fund for Care and Wellbeing (Pensioenfonds Zorg en Welzijn), reflects on the implications of Finance for the Common Good for large pension funds. She believes it is time for a fundamental reorientation with regard to how pension savings are invested. Director of the Belgian National Bank, and former Minister of Finance and vice-Prime Minister of Belgium, **Steven Vanackere** offers us a broad view on the question of morality in the modern age. He suggests that short-termism is a persistent trait of our culture. Acknowledging that regulation can have many adverse effects, he nevertheless warns for the disastrous effects of a 'regulatory race to the bottom' at the international level.

In **Part 4, Relational Finance in the World of Tomorrow**, we consider the future of finance: what lies ahead? **Maarten Biermans**, responsible for sustainable capital markets at Rabobank, connects the question of ethics to the challenges FinTech poses for the financial sector. His message: we must think about ethical dilemmas of FinTech now, before reality overtakes us. **Haroon Sheikh**, senior researcher at the Dutch Scientific Council for Government Policy (WRR), discusses the future of the financial sector along two lines: geopolitics and FinTech, and asks: are we ready for the considerable changes that are going to occur in these domains? Former President of the European Council Count **Herman Van Rompuy** considers the implications of the financial crisis and the rise of populism for Europe and the European Union. He explains the necessity of a new agenda for the European Union. Finally, former Prime Minister of the Netherlands **Professor Jan Peter Balkenende** considers a number of overarching questions concerning the global economy and society. He reviews the answers that have been given to these questions in the past, as well as those that are currently being developed. Finally, he addresses the long road that lies ahead. **Rens van Tilburg**, director of the Sustainable Finance Lab – Socires' partner organization for a 2019-2021 program (not coincidentally) titled 'Finance and the Common Good' - concludes this volume. He explores the question: why is there need for a Rhinelandic alternative to the current financial constitution? And how do we bring this kind of systemic change about?

In the **concluding remarks** to the book, the authors of this introduction attempt to unite the various strands of thought that are presented in the essays. How can we make the transition from the conclusions drawn in this book towards a productive dialogue, one that can truly contribute to a different *ethics* of the financial sector? Is there any chance of a Rhineland arrangement of relational finance?

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