

MARK CARNEY



VALUE(S)

Building a Better World for All

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To Sasha, Amelia, Tess and Cleo

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Introduction

HUMANITY DISTILLED

The car weaves silently through the City. When it reaches St Michael's Lothbury, it waits momentarily while security guards swing open giant steel gates, and it then rolls into the bullion yard. I get out, pass through an alarmed door, by enormous vaults, and up a granite staircase. I rub the nose of the lion adorning a brass portal as I enter the inner sanctum. I bid good morning to the pink-jacketed stewards, walk by portraits of my predecessors and step into the office of the Governor of the Bank of England.

Everything I see evokes the history of the Bank and the permanence of its mission. The entrance hall echoes the style of British imperial capitals. The corridors are lined with mosaics showing images of Roman coins and Mercury, the god of commerce. Lions – the traditional guardians of treasure – populate the gilded stair wells and front the doors.

The Governor's office is much as it has been over the centuries. The desk has been in continual use since it was crafted by Sir John Soane in the eighteenth century. One wall is dominated by a gigantic Canaletto, depicting the Thames in the late seventeenth century. Floor-to-ceiling glass doors open on to a tranquil courtyard that preserves the seventeenth-century churchyard of St Christopher-le-Stocks.

There are symbols of money and value everywhere. Mulberry trees outside the windows allude to the earliest paper currency that was fashioned out of their bark. Mercury's winged head oversees the magnificent Court room where griffons guard the portals as steadfastly as they did the mythical pile of gold at the centre of the earth.

There's real gold at the centre of the Bank. Beneath my feet, nine vaults with three-foot steel walls are filled with 5,500 tons of bullion that the

market values at over \$180 billion. That's 5 per cent of all the gold ever mined since the dawn of humanity.

Everything appears solid, safe, permanent.

But all is not what it seems. The Empire is gone. The Union is under threat. Permanence is temporary. And value is an illusion.

Of Soane's original Bank of England – an architectural masterpiece designed to stand for a millennium – only the exterior walls, the state rooms and the desk remain. The Canaletto is now recognised as being 'of the school' not 'by the master'.

The gold lies pointlessly in our vaults, a vestige of a bygone era when it backed the value of money – a link that became a cross, inspiring booms before triggering busts. Financial markets value gold for its perceived safety not for its revealed beauty. The gold price surges with fears of financial distress or geopolitical conflict. In such times of turbulence, faith in a commodity replaces trust in institutions.

Gold's gyrations are a reminder that the permanence of the Bank of England relies on its values. And that value is built on values.

For over twelve years, I had the privilege and challenge of being a G7 governor, first in Canada and latterly in the UK. During this time I saw kingdoms of gold rise and fall. I led global reforms to fix the fault lines that caused the financial crisis, worked to heal the malignant culture at the heart of financial capitalism and began to address both the fundamental challenges of the Fourth Industrial Revolution¹ and the existential risks from climate change. I felt the collapse in public trust in elites, globalisation and technology. And I became convinced that these challenges reflect a common crisis in values and that radical changes are required to build an economy that works for all.

Whenever I could step back from what felt like daily crisis management, the same deeper issues loomed. What is value? How is it grounded? Which values underpin value? Can the very act of valuation shape our values and constrain our choices? How do the valuations of markets affect the values of our society? Does the narrowness of our vision, the poverty of our perspective, mean we undervalue what matters to our collective wellbeing?

These are the questions that this book seeks to explore. It will examine how our society came to embody Wilde's aphorism – knowing the price of everything but the value of nothing. How by elevating belief in the market to an inviolable truth we moved from a market economy to a market society. And how we can turn this around.

In many respects, this book is a belated response to a question posed a few summers ago when a range of policymakers, business people, academics, labour leaders and charity workers gathered at the Vatican to discuss the future of the market system.

Pope Francis surprised us by joining the lunch and sharing a parable. He observed that:

Our meal will be accompanied by wine. Now, wine is many things. It has a bouquet, colour and richness of taste that all complement the food. It has alcohol that can enliven the mind. Wine enriches all our senses.

At the end of our feast, we will have grappa. Grappa is one thing: alcohol. Grappa is wine distilled.

He continued:

Humanity is many things – passionate, curious, rational, altruistic, creative, self-interested.

But the market is one thing: self-interest. The market is humanity distilled.

And then he challenged us:

Your job is to turn the grappa back into wine, to turn the market back into humanity.

This isn't theology. This is reality. This is the truth.

This book draws on my experience in the private sector and public policy to examine the relationship between value and values. How they shape each other, and how, by doing so, they can determine our livelihoods, identities and possibilities. And how, once we recognise these dynamics, we can turn grappa back into wine.

The book is divided into three parts. Part I examines various concepts of value and their roots in political philosophy and, more recently and narrowly, in economic theory and financial practice. It uses a series of valuation paradoxes from art to the environment to illustrate the potential disconnects between valuations in markets and the values of society.

Values and value are related but distinct. In the most general terms, values represent the principles or standards of behaviour; they are judgements of what is important in life. Examples include integrity, fairness, kindness, excellence, sustainability, passion and reason. Value is the regard that something is held to deserve – the importance, worth or usefulness of something. Both value and values are judgements. And therein lies the rub.

Increasingly, the value of something, of some act or of someone is equated with their monetary value, a monetary value that is determined by the market. The logic of buying and selling no longer applies only to material goods but increasingly governs the whole of life from the allocation of healthcare to education, public safety and environmental protection.

When we decide that certain goods and services can be bought and sold, we decide that they can be treated as commodities, as instruments of profit and use. And we assume, again at least implicitly, that the values of society will remain unchanged in the process. But as Part I shows, when everything is relative, nothing is immutable.

To draw out the relationship between value and values, Chapters 3 and 4 explain how money is used to measure value and what gives money its value. The historic formal backing of money by gold is contrasted with its current informal backing by institutions like central banks. It reveals how the value of such fiat money is grounded in underlying values of trust, integrity and transparency. Chapter 5 then looks forward, exploring key questions about the future of money including whether cryptocurrencies could be solutions to the mistrust of central authorities and how trust scores in social media (and the surveillance state) could ‘monetise’ social capital.

Chapter 6 shows that our deepest challenges are rooted in the narrowing of our values to market fundamentalism, and it explains how this is contributing to the growing exclusivity of capitalism and the rise of

populism. In particular, it argues that, just as all ideologies are prone to extremes, capitalism loses its sense of moderation when the belief in the power of the market enters the realm of faith. In the decades prior to the financial crisis, such radicalism came to dominate economic ideas and became a pattern of social behaviour.

In short, we have moved from a market economy to a market society, and this is now undermining our basic social contract of relative equality of outcomes, equality of opportunity and fairness across generations.

Part II explores the three most significant crises of the twenty-first century – of credit, Covid and climate.

In each case, it examines the underlying causes and describes policy responses. The book argues that, when taken together, these events were driven by a common crisis of values, and that our response could begin to recast the relationship between values and value, providing the basis for the strategies for individual, companies, investors and countries that are described in Part III.

As Chapter 7 shows, market fundamentalism contributed directly to the global credit crisis, in the form of light-touch regulation, a belief that bubbles cannot be identified and a misplaced confidence in a new era. Authorities and market participants fell under the spell of the three lies of finance, believing that ‘this time is different’, that ‘markets are always right’ and that ‘markets are moral’.

Rather than reinforcing social capital, we consumed it. Banks were deemed too big to fail, operating in a ‘heads I win, tails you lose’ bubble. Equity markets blatantly favoured technologically empowered institutions over retail investors. With too few market participants feeling responsible for the system, bad behaviour went unchecked, proliferated and eventually became the norm.

In such an environment, means and ends conflate all too easily. Value becomes abstract and relative, and the pull of the crowd overwhelms the integrity of the individual. The resulting unjust sharing of risk and reward

widens inequalities and corrodes the social fabric on which finance depends.

Chapter 8 reviews my experience leading the G20's efforts to create a safer, simpler and fairer financial system. It argues that in order for financial reforms to rebuild social capital they must balance the tension between free-market capitalism, which reinforces the primacy of the individual at the expense of the system, and social capital, which requires from individuals a sense of responsibility for the system. In other words, a sense of self must be accompanied by a sense of solidarity.

Chapter 9 describes the causes and dynamics of Covid-19 which has wrought twin crises of health and economics, both unprecedented in our lifetimes. This global pandemic has moved with alarming speed and virulence because of deep global interconnectedness, but its severity has been magnified by our failure to prepare adequately despite ample and varied warnings. For too long, we undervalued resilience and have been forced to pay the heaviest costs. The economic shock has resulted in deep recessions and enormous jobs losses, and it now threatens to widen the fissures of inequality in the years to come.

Despite these tragedies, as Chapter 10 outlines, this crisis could help reverse the causality between value and values. When pushed, societies have prioritised health first and foremost, and then looked to address the economic consequences. We have acted as Rawlsians and communitarians, not as utilitarians or libertarians. Cost–benefit analyses, steeped in calculations of the Value of Statistical Lives, have mercifully been overruled, as the values of economic dynamism and efficiency have been joined by those of solidarity, fairness, responsibility and compassion.

Basing our response on objectives derived from these values, and not on an economic determination of where the net benefit lies, will be the key to building back better. This is completely achievable; our limited historical experience with such epochal events is that afterwards the aspirations of society focus not just on the rate of growth but also on its direction and its quality. In the aftermath of the health crisis, it's reasonable to expect public demands for improvements in the quality and coverage of social support and medical care, for greater attention to be paid to managing tail risks and for more heed to be given to the advice of scientific experts.

How we address the climate crisis will be the test of these new values. After all, climate change is an issue that i) involves the entire world, from which no one will be able to self-isolate, ii) is predicted by science to be the central risk tomorrow, and iii) we can address only if we act in advance and in solidarity.

Climate change is the ultimate betrayal of intergenerational equity. It imposes costs on future generations that the current generation has no direct incentives to fix. As Chapter 11 explains, we face the ‘tragedy of the horizon’ in which the catastrophic impacts of climate change will be felt beyond the traditional perspectives of most business, investors, politicians and central bankers. In other words, once the physical effects of climate change become the defining issue for a critical mass of decision makers, it could be too late to stop their catastrophic effects.

Like the financial crisis, the tragedy of the horizon represents a crisis of valuation and values. Compare the valuations of Amazon and the Amazon region. Amazon’s \$1.5 trillion equity valuation reflects the market’s judgement that the company will be very profitable for a very long time. In contrast, it is only once the rainforest is cleared and a cattle herd or soya plantation is placed on the newly opened land that the Amazon region begins to have market value. The costs to the climate and biodiversity of destroying the rainforest appear on no ledger.

Chapter 11 highlights how changes in climate policies, new technologies and growing physical risks will prompt reassessments of virtually every financial asset. Firms that align their business models with the transition to a net-zero carbon economy will be rewarded handsomely; those that fail to adapt will cease to exist. To address the climate crisis we need innovation on every front, and Chapter 12 on climate change details how the financial system can be retooled to make the markets a part of the solution. With comprehensive climate disclosure, a transformation in climate risk management by banks and the mainstreaming of sustainable investment, we can ensure that every financial decision takes climate change into account.

This new sustainable finance can work alongside private innovation and aggressive government action to help deliver net zero. The importance of this goal cannot be overstated: the task is large, the window of opportunity

is short and the risks are existential. How our economy conceptualises value has been standing in the way.

Both the climate and Covid crises demonstrate the value of society forging a consensus around common goals, and then letting market dynamism determine how to achieve them rather than pursuing a trade-off between what society values and optimising current financial values as priced in the market.

Part III of the book builds on the responses to the three crises to draw out common themes and to create action plans for leaders, companies, investors and countries. It concludes with a new platform-based approach to managing the global commons in the wake of the demise of the rules-based international order.

To rebuild an inclusive social contract, it is essential to recognise the importance of values and beliefs in economic life. Economic and political philosophers from Adam Smith (1759) to Friedrich Hayek (1960) have long stressed that beliefs are part of inherited social capital, which provides the social framework for the free market. The experience of the three crises suggests that the common values and beliefs that underpin a successful economy are:

- *dynamism* to help create solutions and channel human creativity;
- *resilience* to make it easier to bounce back from shocks while protecting the most vulnerable in society;
- *sustainability* with long-term perspectives that align incentives across generations;
- *fairness*, particularly in markets to sustain their legitimacy;
- *responsibility* so that individuals feel accountable for their actions;
- *solidarity* whereby citizens recognise their obligations to each other and share a sense of community and society; and
- *humility* to recognise the limits of our knowledge, understanding and power so that we act as custodians seeking to improve the common good.

These beliefs and values are not fixed. They need to be nurtured. Just as any revolution eats its children, unchecked market fundamentalism devours the social capital essential for the long-term dynamism of capitalism itself. Markets on their own will never be adequately incentivised to build social capital, which requires a sense of purpose and common values among individuals, companies, investors and countries. Conversely, values are like muscles that grow with exercise. The book therefore turns to the imperatives of how to recognise and reinforce these essential social foundations of the common good.

Chapter 13 on leadership examines the traits and behaviours necessary for leaders to catalyse change, help their colleagues realise their potential and encourage their organisations to fulfil their missions. To inspire the confidence and trust for their initiatives to be most effective, leaders must engage, explain and emote. Leaders must continually earn their legitimacy, and to maximise the impact of their organisation they must stay true to its purpose – a purpose grounded in the objectives of clients, colleagues and community. Great leadership isn't just effective, it's also ethical, building both value and virtue through its exercise.

How purposeful companies create value is the focus of Chapter 14. It reviews the evidence of the alignment between purpose and long-term value creation – dynamism – from the perspectives of both companies and societies. The chapter then describes various strategies for purposeful corporations to benefit all stakeholders. True corporate purpose drives engagement with stakeholders, including employees (by being a responsible and responsive employer), suppliers and customers (through honest, fair and lasting relationships in the supply chain) and communities (as good corporate citizens that make full contributions to society). Corporate purpose embeds solidarity at local, national and supranational levels, and recognises the paramount need for sustainability across generations. By uniting broader interests behind a common purpose, purposeful companies can be more impactful, dynamic and profitable.

Chapter 15 then outlines how investors can both reinforce these initiatives and be rewarded by them. A critical element of rebalancing value and values will be developing and embedding comprehensive and transparent approaches to measuring stakeholder value creation by

companies. The chapter shows how best to measure sustainable and financial value, the dynamic relationship between these two sources of value and the strategies investors can pursue to maximise both.

Sustainable investing is developing into an essential tool to bring the values of the market into line with those of society. It improves the measurement of what society values from workplace diversity to the Sustainable Development Goals, the SDGs. It is being deployed to increase shareholder value through multiple channels by helping companies to attract and retain the best people, to increase their resilience, improve efficiency, align better with stakeholders and maintain social licence. When social needs – such as climate change – are tackled with a profitable business model, the answers to many of the most deeply rooted problems we face become scalable and self-sustaining.

The many policy strands discussed in the book are brought together in Chapter 16 to develop a framework for countries to build value for all. This is built on traditional foundations of strong institutions, and investments in physical and human capital. Given the far-reaching changes wrought by new technologies from artificial intelligence to bio-engineering, there must be a heavy emphasis on mandatory workforce training, universal skills development, the balancing of rights of all stakeholders, incentives to promote an enterprise society, and free trade for small and medium-sized enterprises.

Country strategies must make existing markets work better and build new markets. But markets alone won't solve our most intractable problems. We need political processes to define our goals and objectives – to set our values. Markets can then be marshalled to help discover and drive solutions in a form of mission-oriented capitalism. As we shall see, however, given that the marketisation of society has created some of our problems, the market simply cannot be the answer to every question.

The nation serves an essential economic role, but it is much more than a collection of marketplaces or a trade negotiator. The state embodies collective ideals such as equality of opportunity, liberty, fairness, solidarity and sustainability. We must build consensus around national goals, such as a just transition to a net-zero economy, combating Covid or universal skills training so that all can reap the rewards of the Fourth Industrial Revolution.

And we must strive to achieve those goals in ways that serve the common good so that all benefit.

A deeper sense of national values could lead to more focused, constructive international engagement. Using a values-based approach, it is possible to build a more inclusive, resilient and sustainable globalisation. Though we cannot agree binding global rules to tackle the challenges we face, multilateralism can still be powerful. The chapter shows how we can build on the lessons from how the international community responded to the financial crisis, creating a form of cooperative internationalism that is more compatible with the complexities of the problems we face and people's demands for both sovereignty and results.

RESTORING HUMANITY IN A SOCIETY THAT VALUES WHAT MATTERS

An overarching theme that runs through this book is that we cannot take the market system – which produces such plenty and so many solutions – for granted. Markets are essential to progress, to finding solutions to our most pressing problems, but they don't exist in a vacuum. Markets are social constructs, whose effectiveness is determined partly by the rules of the state and partly by the values of society. If left unattended they will corrode those values. We must concentrate on rebuilding social capital to make markets work. To do so, individuals and their firms must rediscover their sense of solidarity and responsibility for the system. More broadly, by rebasing valuation on society's values, we can create platforms of prosperity.

My experience in the private and public sectors accords with Pope Francis' parable. Value in the market is increasingly determining the values of society. We are living Wilde's aphorism at incalculable costs to our society, to future generations and to our planet.

This book will argue that, once we recognise these dynamics, we can turn grappa back into wine, and channel the value of the market back into the service of the values of humanity.