CRESSI Working papers

The CRESSI project explores the economic underpinnings of social innovation with a particular focus on how policy and practice can enhance the lives of the most marginalized and disempowered citizens in society.

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Beckert, Sen and Finance: A response to marginalisation mindful of today's prevailing monetary and financial environment

By Christopher Houghton Budd and C.W.M. (Ro) Naastepad

Chapter 4 of:

Deliverable D1.1: Report on Institutions, Social Innovation & System Dynamics from the Perspective of the Marginalised

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Creating Economic Space for Social Innovation

Beckert, Sen and Finance: A response to marginalisation mindful of today's prevailing monetary and financial environment

D1.1 Chapter 4

By Christopher Houghton Budd and C.W.M. (Ro) Naastepad

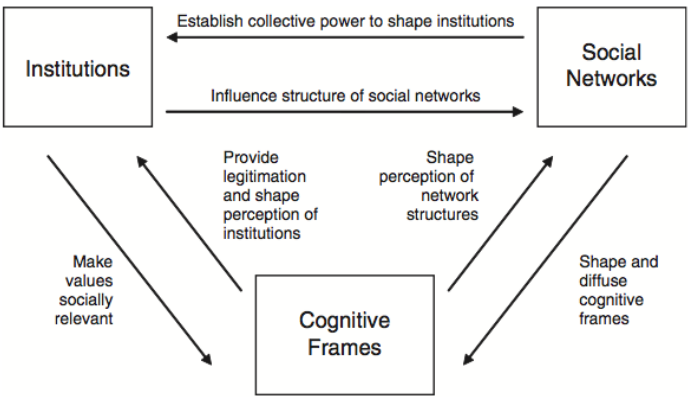
Introduction

In this paper we examine the question of marginalisation through the lens of Jens Beckert's 'social grid' and Amartya Sen's 'capabilities approach', but with a particular focus on the interface with finance.[1] (Michael Mann's powers analysis is not directly treated.) We do so by considering both such cultural institutions (science, education, concepts, theories, 'narratives', norms, 'cognitive frames') and economic ones (in particular access to credit and financial literacy) as are necessary to and even instrumental for social innovation. The connection with finance has three main grounds: It provides a means to tighten and test the viability of Beckert's and Sen's theses; it is a main (though of course not the only) driver of marginalisation and social exclusion; and there is a need to make today's overwhelmingly financial economic paradigm 'social innovation friendly' – the reverse of requiring all social life to be financial market friendly.

Part 1

4.1 À la Beckert

Jens Beckert's (2010) 'social grid' (see sketch)[2], to which the CRESSI project makes specific reference, comprises cognitive frameworks, institutions and social networks – a threefoldness that Beckert describes as "irreducible". By that he means the three 'fields' are autonomous yet inter-related, so they need to be understood as co-evolving.



We build on this approach not by applying Beckert's grid directly, but by identifying and applying the underlying and generic principle of which, we would argue, his grid is itself an instance – namely, the thesis (for such it seems to be) that social life is irreducibly threefold and therefore

[1] This report forms Chapter 4 of: Houghton Budd, C., Naastepad, R. and van Beers, C. (Eds.), *Report on Institutions, Social Innovation & System Dynamics from the Perspective of the Marginalised*, CRESSI Project Deliverable D1.1. Available at: http://www.sbs.ox.ac.uk/ideas-impact/cressi/publications-0

[2] We use Beckert's term although whether a triangular device can be called a grid is a moot point.

social phenomena are bound to reflect this. Each fold, or ‘field’ to stay with Beckert’s terminology, is autonomous in regard to the other two, with which it nevertheless interacts in the process of co-evolving.

The logic of our approach begins by dwelling on the *epistemological* challenge of Beckert’s conception concerning causality and causation, namely, his rejection of “deterministic understandings of structure” (Beckert 2010, p. 608). But what is the alternative to deterministic understanding? We suggest reflexivity, here treated in respect of finance, with the help of a seminal example of an economic institution that cannot really be understood without resort to reflexivity – without, that is, thinking about it reflexively: double entry bookkeeping.

4.2 Reflexivity

Post-Renaissance and more specifically rationalist causality is often one-way (cause to effect) and defaults to the material rather than the non-material. However, modern economics (i.e. since Adam Smith) is not only subject to two-way causation or recursiveness, but also reflexivity – a kind of thinking that, like the swift forever on the wing, seldom if ever comes to rest. The most telling exponent of this is the financial speculator, George Soros, who is one of a rare breed – someone able to be successful in finance as well as explain how it (and he) operates.[3] In *The Alchemy of Finance*, Soros writes as follows:

> “In most phenomena investigated by scientific method, one set of conditions follows another irrespective of what anybody thinks about them. [But t]he phenomena studied by social sciences, which include the financial markets, have thinking participants and this complicates matters [because] the participants’ views are inherently biased. Instead of a direct line leading from one set of conditions to the next one, there is a constant criss-crossing between the objective, observable conditions and the participant’s observations and vice versa: participants base their decisions not on objective conditions but on their interpretation of those conditions. This is an important point and it has far-reaching consequences. It introduces an element of indeterminacy which renders the subject matter less amenable to the kind of generalizations, predictions, and explanations that have given natural science its reputation. Exactly because it is so disruptive, the social sciences in general and economic theory in particular have done their best to eliminate or to ignore the element of indeterminacy. I have taken issue with that endeavour and tried to develop an alternative approach which takes the participants’ bias as its starting point… I may have overstated my case [because it] is only in certain respects and in certain special circumstances that the indeterminacy becomes significant, [for example] in financial markets.” (6-7)

Whether one agrees with Soros’s ideas, still less whether they amount to or lead to inconvenient truths from a policy point of view, is neither here nor there as regards their validity *as thoughts* and indeed as *an endeavour to understand*. After all, if one thing characterises the global financial crisis and global finance generally, it is precisely the reflexive nature of its causation. Notwithstanding that some attribute its cause to ‘bad news’ from one particular bank (PNB Paribas) in the summer of 2007, there is no one event or locus where the process of global financial collapse can be said to have begun and therefore no one event that can be introduced to prevent its repetition or, perhaps more to the point, continuation (albeit in changed form). In an increasingly single global economy, the luxury of a fixed point of departure or a single, central reference point, are the main casualties of this new epistemology. Everything becomes reflexive.[4]

Moreover, it is the reflexive, indeed per Soros alchemical, nature of global finance and thus of an economic life heavily influenced by finance, that gives to that economic life a reflexive nature also.

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[3] Perhaps only Isaac Newton and the English economist, John Maynard Keynes, belong also in this pantheon.

[4] The point is not new. In 1999 Mayer observed, that “credit comes from all over”, and 30 years prior in the chaordic theory that inspired Dee Hock, inventor of visa cards, one has an equivalent phenomenon to the internet – the locus of events ceases to be fixed or singular. As Keynes long ago said of the loss of the gold standard in 1923: “Without it, we move into a world in which ‘the point about which the exchanges fluctuate, and at which they must ultimately come to rest … is not itself a fixed point…’ ” (89)

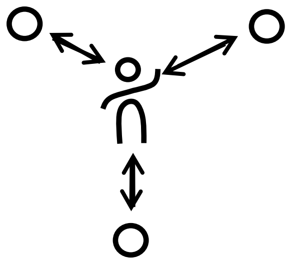
Until goods and finance are conceived as distinct categories and therefore interactive, rather than conflated or monolithic, the economics and indeed the economy of goods will never survive the impact of the economics and the economy of finance. As any central banker trying to protect his domestic monetary policy from speculative currency movements well knows, reflexive causation includes linear causation, but the converse is not true.

Soros's observations go a long way to explaining how finance is an epistemological event as well as – if not before – an economic one. Get the epistemology wrong, and the chances are great that finance, because it can come *to* rest but is never *at* rest, will always trump the 'real economy', so-called, which is classically, but erroneously, thought to be in or tending towards equilibrium, with disequilibrium seen as an aberration.

The reflexive nature of the financial economy is crucial because it means that finance is a match, if not indeed a reflection, of thinking itself, which is also reflexive. This results in a number of problems – but especially our dependence on Newtonian thinking and our difficulty therefore in conceiving and managing an economic life made up of various elements (typically three) that, while distinguishable one from the other, are not separate, but seamless, interactive and even autopoietic – having and able to follow their own logics or natures.

If reflexivity is not to remain an abstract idea, it needs an agent or representative – someone who can give the idea effect in social reality. For us, that person is the reflexive thinker (in this case an economist), who has abstracted himself from the events he finds himself within, but through the very same instrument that allows abstraction – thinking – also has the means to reorder those events and to give them new meaning and coherence.

The reflexive thinker, therefore, is at one and the same time both perceiver and representative of each field and therefore the unifier of them. He it is who can bring an end to what, after Beckert (2011) and Lazear (2000), one could call 'field supremacy', meaning that the terms and imperatives of one field usurp or crowd out those of the others[5], both conceptually and in concrete circumstance. In short, it is the reflexive thinker who can give Beckert's grid traction, at least as in this instance, the world of finance. He can do so because he recognises inter-determination and field co-evolution and foreswears hegemony and field supremacy, as this sketch seeks to illustrate.



Of course, to posit the reflexive thinker is also to posit the social entrepreneur, in effect the agent of the process of social innovation rather than that process itself.

4.3 Accounting and Double Entry Bookkeeping

In terms of finance, this triple phenomenon of reflexivity, reflexive thinking and the reflexive thinker, finds its essential expression in the structure of accounting which spans from the heights of epistemology to the ground of today's practical monetary and financial reality. Grounded on double

[5] See Houghton Budd and Naastepad (2014).

entry bookkeeping, accounting is a threesome. Lying at the base of modern finance and as irreducibly threefold as Beckert's social grid, it comprises income and expenditure accounts, the balance sheet and closing entries – representing respectively trade, capitalisation and the link between the two, the entrepreneur. It is also reflected in economics's three functions of money – means of exchange, store of value, unit of account. Likewise, in the global financial architecture of world trade and financial markets held in balance[6] by the central banks.

Closing Entries
Entrepreneur
Unit of Account
Central Bank

Income & Expense	Balance Sheet
Trade	Capital
Means of Exchange	Store of Value
World Trade	Financial Markets

At the heart of accounting is another trinity of concepts, double entry itself using the principle that there can never be a debit without credit and vice versa. That is, every transaction has two aspects (which is different to two parties) – as seen from within outwards and from without inwards. The third is the balance struck by the bookkeeper who, fundamentally, is not the same person as the actor or author of the transactions being accounted for. Here, however, is not the place for further detailed exposition of double entry bookkeeping, suffice it to say that, potentially at least, double entry bookkeeping also provides a micro means to make macro problems tractable, by enabling them to be modified by the individual's behaviour.

Double entry bookkeeping (on the grasp of which any financial literacy worth its salt depends), is the very foundation of modern finance, providing us with an instrument that spans between the wide reaches of today's global economy, on the one hand, and its ethical dimension, on the other.[7] It therefore matters enormously in monetary history whether or not people are conscious and make use of this. In the past only some people were so placed, for it presupposed a grounding in morality. In the future, potentially everyone will or can become conscious, that is, provide that ground through his own financial dealings.

The morality of double entry bookkeeping is not of an overt or religious kind, however. Although first described by a monk, Luca Pacioli, in 1494, it has a technical nature founded on the simple principle that there can never be a debit without a credit, and vice versa – a bookkeeping version of perspective, part of that great change in consciousness marked by the Renaissance.[8] Before, with only single entry, if a mistake were made one could not see it, nor, therefore, whether it was intended or accidental. With the double entry mistakes become obvious and have to be corrected.

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[6] This is meant in an ideal sense, or in the sense of the theorem here advocated, of co-evolving autonomous fields, whereby in this case the central bank is no longer an agent of the state or the markets, but above the fray, as described by Capie *et al.* (1994). In such conditions balance would be both accounting and socio-economic. Nowadays, of course, this is not necessarily the case.

[7] This is to speak from inside the practice of finance. From outside, especially from the point of view of performance analysis (CAPM, VaR, efficient market hypothesis, et al), the objective, 'given' nature of double entry bookkeeping is all too easily overlooked.

[8] Indeed, some say Luca Pacioli taught perspective to Leonardo da Vinci. For an interesting discussion of this theme see Fabio Bertrato, "Luca Pacioli and the "Controversy of the Perspective": The Classification of the Mathematics from the Classical Antiquity to the end of the Quattrocento, *Revista Brasileira de História da Matemática Especial No 1, Festschrift Ubiratan D"Ambrosio* – (December/2007) Publicação Oficial da Sociedade Brasileira de História da Matemática. ISSN 1519-955X.

But so, too, one can see if the error was unintended or deliberate. A light is thrown on one's conscious motivation. As a result, if a debit appears without a corresponding credit, one can (almost must) find and remedy the error, at first as a bookkeeping matter, then in actual life, in the economy itself. The marvel is that an explicit technique entails an ethical (albeit unspoken, but not thereby absent) dimension.

By using double entry bookkeeping directly – more precisely, using double entries to transpose single entries into a trial balance – not leaving it to accountants or to the computer, one can experience first-hand an instance of three inter-determining elements – in this case a range of *transactions* reconciled to the *balance sheet* via *closing entries*. Moreover, precisely in this way one also realises that if modern economic life is to be fair and inclusive (which overcoming marginalisation presumably presupposes) everything depends on the authors of economic events using such financial literacy to comprehend, elaborate and guide them to that end.

When, in addition to the scientific nature of double entry bookkeeping (arguably the equivalent in finance to the law of gravity in physics) as it informs accounting, and when one considers it analogously to the three functions of money, or as a micro reflection of the global financial architecture, or as if one were a central banker using the central bank to reconcile credit creation and trade (substantial topics that can only be hinted at here), then one can see how double entry bookkeeping is an instrument which enables transposition from theory to practice. Indeed, it brings the promise of financially literate citizens behaving deliberately but freely in ways that emulate what 'the authorities' otherwise seek to achieve in terms of the theoretical and institutional framework of price stability[9], predicated as that approach is on the assumption that people react automatically to central bank stimuli.

4.4 The moral or normative dimension

When we accept the interdependency of three otherwise autonomous 'fields', we are not excluded by a process made automatic, but find ourselves as higher order economic actors – the very agents of the changes we wish to see. In this sense, perhaps uniquely in human endeavour, double entry bookkeeping can help us solve a problem at the centre of the economist's normative universe: namely, the individual, like the eye, cannot see himself. Left to himself, he is (deemed to be) subjective. Our intentions pass through us like light passes through the eye. We see these intentions and their effects via what we do; more precisely, through the difference between what we intend and what actually happens.

This phenomenon is exemplified by the fact that financial deeds are invisible. We can, however, render them visible by means of accounting, provided we understand and use accounting (with its foundation of double entry bookkeeping) as an instrument of perception rather than as a tool for performance analysis or tax avoidance. Then we will find that accounting is objective, universal, indifferent to time, immune to ideological capture, and thereby also scientific.

Furthermore, understood as 'inherent regulation', alert understanding of accounting and its counterpart behaviour on the part of the citizenry renders external regulation redundant, something only needed by those who, for whatever reason, are or remain economically and monetarily unconscious. In this way, double entry bookkeeping has a further important twin significance, in that it enables us to self-moralise our economic behaviour because it enables us to see that behaviour via its effects. 'Twin', because at the same time as it renders our motivations tractable, provided we have the will to do so, it also enables us to act in ways that central bankers, in their self-assigned designation as 'enlightened princes'[10], can only otherwise dream of us doing.

[9] For a seminal treatment of this hugely important topic, see J. M. Keynes (1923) *A Tract on Monetary Reform*.
[10] As described in 2001 by the late Franciso Gros, twice governor of Brazil's central bank.

We thereby avoid the need for any moralising having to be done to us from outside by agencies external to us. In this sense, if our behaviour is remoralised – specifically, if the 'downside' effects of unbridled self-interest (with its attendant myopia and positivist justification) can be seen by us from within, as it were, then they can be modified out of individual awareness and freedom. This creates the possibility that our economic conduct and the economic life that results from it will see a reduced emphasis on selfishness, making it more proportionate and showing that it is not the only ground for rational economic action.[11]

However, this will not happen if there is no will to do it. To return to Beckert,

> "it is the normative character of neoclassical economic theory that stands in the way of improving our understanding of the normative foundations of the economy." (Beckert 2011, abstract)

Also for Amartya Sen (1997), proposing a new foundation of economic behaviour requires us to think about how it relates to the normative assumption underlying the current economic paradigm: the idea that *homo economicus* – this restless, insatiable being always calculating his personal gain – is the optimal microeconomic foundation for our economic institutions.[12]

What, therefore, are Beckert and Sen implying, other than that the normative foundation of neoclassical economic theory[13] asks us to remain unconscious, asleep in our will? It asks us to defer to unseen market forces (despite the neo-deism this implies), and to unconscious behaviour driven by instinct, witness such vocabulary as 'animal spirits', 'survival of the fittest', and 'bull' and 'bear' markets.

And yet, moving from animal-like behaviour and values to conscious behaviour is not automatic, however; it presupposes moral exercise. And that needs will. To wax Aristotelian, it is not enough to condition conduct by ethics. Ethics have to be conditioned by virtues and virtues by character. What is it in the human character, therefore, that has allowed the neo-liberal paradigm to prevail, and to what in that character does one have to appeal for a different paradigm to come into being?

A clue, although it may not have been intended, lies in four *en passant* references to human will made by Mosini (2011) in her critique of positivist economics. She points out that economists of the stature of Lionel Robbins and Leon Walras indicate that human will means economics cannot be a natural science. She reiterates Auguste Comte's claim that love, arguably an attribute of will, can lead egoism over into altruism. While her own view is that "will, combined with hope, can provide a powerful propeller potentially capable of unravelling [the neo-liberal] paradigm…" (Mosini 2011: 139) In this Mosini is not alone. Heilbroner and Milberg (1995: 78), for example, have also observed "the existential impossibility of excluding from social analysis the entirely human categories of purpose and will."

It is not that a case cannot be made, therefore. The question is: What is needed for people to wake up in their will and therefore to change their behaviour, their motivation? And to do so as quickly, effectively and generally – even urgently – as today's circumstances (of endemic indebtedness, widespread austerity, growing wealth inequality, unstable finance and labour-obviating technology)

[11] As mentioned earlier, though we do not labour the point or argue it directly, we assume an economy that addresses marginalisation will also be fair, ethical and other-interested.

[12] Through his academic work over decades, Sen had come to remark the importance of an ethical and philosophical analysis as the basis for a new concept of development, distinct from other current economic perspectives within international development theories: "values are not then *just* instruments, but also views of what should be or should not be promoted" (Sen, 1988).

[13] Indeed, of most economic theory in general.

seem to demand?

Cheffers and Pakaluk (2007) are in no doubt. In their incisive review of (what is wrong with) the accountancy profession, they also point to Aristotelian character (*ethos*), without which the principles, codes of conduct and regulations will be rudderless. This, in their view, results in an accounting profession that is pushed by the waves hither and thither, meaning it does its clients' bidding when it should provide their actions with a check.[14]

4.5 The nature and counterpart of capital

All that is on the moral side. But on the side of finance itself one can have a similar effect by revisiting one's understanding of the nature of and relationship between money and credit, meaning capital. It takes a lot of will, wakefulness, and readiness to be responsible, if one is to ask what, in our contemporary monetary system, is the real nature of money and credit. Credit refers to the lending of capital from one party to another, in order that the borrower may do something with it that the lender cannot or chooses not to do. This capital then appears on the liability side of the borrower's balance sheet, who uses it to acquire the assets without which he cannot be economically active.[15] But it is not these assets that represent capital; it is the intuition, the creativity, the skill – in a word, the capacities – of the user of capital. For the capital will not be put at the borrower's disposal if the lender does not believe[16] in the capacities of the borrower. In its essence, therefore, capital represents ideas, or the active and creative human mind; it is created when an entrepreneur has a creative idea.

Creativity cannot unfold unless it is capitalised, however. In this sense capital is *enabling*, because it permits the unfolding of capacities and creativity. This is not to say anything new. Capital has always been emancipatory. As Beckert (2011, p. 9), citing Albert Hirschman, reminds us, the goal of this emancipation may need reconsideration today:

> Hirschman (1977) has shown that the 18th and 19th century orientation towards the liberation of society through free markets did not go uncontested even then. It was understood throughout as an emancipatory social theory… If this observation is right, one could consider whether the normative content of this theory based on (unlimited) market freedom is not itself subject to historical change, [so much so that] its focus on the individual pursuit of self-interest as the central coordinating mechanism assumed a different moral ranking in the 18th and 19th century than it warrants today.
>
> *Original: Hirschman (1977) weist in seinen Arbeiten darauf hin, dass die Annahme der Befriedung der Gesellschaft durch den Markt auch zeitgenössisch umstritten war. Sie wurde aber durchaus als emanzipative Gesellschaftstheorie gedeutet... Stimmt diese Beobachtung, dann ließe sich überlegen, ob der normative Gehalt der auf (möglichst unbegrenzte) Marktfreiheit setzenden Theorie selbst einem historischen Wandel unterliegt... Könnte es sein, dass diese Theorie zwar zur Zeit ihrer Entstehung normativ wegweisend war, ihre normative Angemessenheit jedoch gerade durch ihren Erfolg bei der Prägung des sozialen Lebens verlor? Folgt man diesem Gedanken, dann hätte die ökonomische Theorie mit ihrem Fokus auf individueller Verfolgung von Eigennutz und dem Markt als zentralem Koordinationsmechanismus einen historischen Index dergestalt, dass diese Theorie im 18. und 19. Jahrhundert einen anderen normativen Rang einnahm als für die heutige Gesellschaft.*

The emancipatory motive which inspired neoclassical economic theory in the days when it emerged

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[14] Solomon (2004), Sison (2010) and Giovanola and Fermani (2012) also provide valuable critiques of the role of ethics in business if there is to be any degree of fair conduct. If the *πολις* (polis or community), not just the lone individual is to thrive.

[15] Whether received from a bank or the markets (or even from a friend or relative) capital is also potential money. When the entrepreneur receives the credit, it arrives on the passive side of his balance sheet as capital – a liability. On the active side it is an asset (cash), which he now makes use of either by acquiring investment goods which, after they have been installed, materialise as additions to the economy's capital stock, or by spending it on intermediate inputs and the incomes of his workers and himself, thereby turning the capital into money and giving its recipients, in their turn, the ability to purchase the goods and services they need.

[16] Credit derives from the Latin c*rēdere* meaning "to believe in", "to trust" or "to have confidence in".

has tended to have a particular twin context. Firstly, it has been confined to a relatively narrow group of capital owners. Secondly, it has been used in link with material production, material progress. In the last 200 years both these conditions have been modified considerably. As to the first, for better or worse, the ownership of capital has become greatly widened, although this cannot be said of our understanding of capital. As to the second, with the increase in living standards consequent on the increase in productivity, our material needs have shrunk relative to our non-material needs. We have moved up Maslow's pyramid to its higher categories: creativity, morality, and self-actualization. In the words of Amartya Sen (2001), as living standards increase, the source of happiness increasingly lies in the satisfaction of immaterial rather than material needs.[17]

Admittedly, this 'progress' has not been an unalloyed success. There is still huge inequitable distribution of wealth, but not, of course, an absence of wealth. Even in Marx's time the 8-hour day was bemoaned, and that when only men were breadwinners. Think how many hours most couples today have to work for their subsistence (defining that as minimal disposable income).

Though seldom recognised, driving this problem is the relatively simple fact that this progress has yet to be mirrored in our understanding of capital. The essentially emancipatory nature of capital was first applied to material productivity, but it has got stuck there. We do not see that it is also, and much more so, emancipatory in regard to our *non*-material existence – meaning, in short, the need to finance creativity and capacities per se, not only those that are necessary for or conditional upon material goods and material well-being.

Again, there is little novelty in this observation. It is more a matter of adjusting our focus, although to do so is to re-delineate how we see economic life and therefore capital. It takes us back to the early 1930s, when such thoughts were already cogently and publicly debated. As British philosopher, Bertrand Russell, wrote in 1935:

> "In a world where no one is compelled to work more than four hours a day, every person possessed of scientific curiosity will be able to indulge it, and every painter will be able to paint without starving, however excellent his pictures may be. Young writers will not be obliged to draw attention to themselves by sensational pot-boilers, with a view to acquiring the economic independence needed for monumental works, for which, when the time at last comes, they will have lost the taste and capacity. Men who, in their professional work, have become interested in some phase of economics or government, will be able to develop their ideas without the academic detachment that makes the work of university economists often seem lacking in reality. Medical men will have the time to learn about the progress of medicine, teachers will not be exasperatedly struggling to teach by routine methods things which they learnt in their youth, which may, in the interval, have been proved to be untrue."[18]

Similarly, the English economist, John Maynard Keynes (1930), spoke of 'the real values of life' – namely, 'to live wisely and agreeably and well.' For Keynes, the economic problem was to provide people with the goods required for their material needs so that they can accomplish what Aristotle called 'fine actions'.[19]

In short, with their livelihood taken care of, human beings can become creative. Not only because they have food in their stomachs, shoes on their feet and a roof over their heads, but also because their capacities are capitalised.

4.6 Of capacities, capabilities and credit

In the context of the CRESSI project, therefore, with its emphasis on Amartya Sen's capability approach, there is a need for precision as to how the plainer English term 'capacities' relates to Sen's 'capabilities'. A fuller discussion of these concepts can be found in our unpublished note,

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[17] See also the *Appendix: Open Access Credit and Sen's Capabilities Approach*.

[18] *In Praise of Idleness: And Other Essays*. Routledge (1994, [1935]).

[19] For Keynes's link to Aristotle, see Robert Skidelsky (2009), and Robert Skidelsky and Edward Skidelsky (2012).

Accounting, Economic and Sociological Considerations of Open Access Credit – Clarification of Concepts for CRESSI Project[20], but in essence we have widened the 'traditional' notion of the emancipatory dimension of capital by conceiving capital as the counterpart to and enabler of human capacities. To a large degree this corresponds with Amartya Sen (2001)'s view that,

> "Development can be seen as a process of expanding the real freedoms that people enjoy. Focussing on human freedoms contrasts with narrower views of development, such as identifying with the growth of gross national product, or with the rise in personal incomes, or with industrialization, or with technological advance, or with social modernization."

Sen (2001) also acknowledges that "Growth of GNP or of individual incomes can, of course, be very important as a *means* to expanding the freedoms enjoyed by the members of the society", but to our knowledge he does not explicitly address the question how the means generated by the economy support, or can be made to support, human freedoms or capabilities.

It makes a difference, for example, if instead of being secured against real assets (in order to protect the lenders from loss), loans are made 'to the person not the asset', as used to be the norm in banking. Loans then act like the air beneath the wings of borrowers: providing 'lift', they work to confirm them in their initiative, on the successful fulfilment of which fresh values (and the true return of capital) depend.
This, indeed, seems to be the import of comments made by Christine Lagarde, managing director of the IMF, when, in her Amartya Sen Lecture at London School of Economics on 6 June 2014, having equated capabilities with capacities, she spoke of "…too many people lack[ing] the basic tools to get ahead − decent nutrition, health care, education skills, *and finance*..", a problem to be remedied by building "…a modern financial sector, so that people can empower themselves through *access to credit*..." (emphasis added).[21]

Part 2

4.7 Open Access Credit

As elaborated above, the terms of reference provided by Beckert are used as a framework in the CRESSI project (as also in the EU FP7 cooperation work programme[22]), with which to evaluate the overcoming of marginalisation (or social exclusion)[23] by asking if that requires *systemic* change, involving not just one of society's three main dimensions, but the co-evolution of all three.

In this second half of our paper we respond to that question, again through the lens of finance, but now with a specific focus on the social innovation of providing young people with open access to credit (Open Access Credit) with which to undertake projects based on their inherent or cultivated creativity, skills and initiative. In a word, capacities.[24] As the CRESSI project unfolds, this idea will be developed conceptually and 'empiricised' by way of case studies, allowing detailed exploration of its conceptual, practical and even moral consequences with respect to contribution to overcoming marginalisation, prior to its eventual dissemination through seminars, workshops and curricular modules. The purpose of this section is to contextualise and then outline or suggest what these changes might be and entail.

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[20] Circulated on 25 March 2014.
[21] Available at http://www.imf.org/external/np/speeches/2014/060614.htm.
[22] European Commission (2012) Activity 8.1, SSH.2013.1.1-1 'Economic underpinnings of social innovation' of *FP7 Cooperation Work Programme 2013 Theme 8: Socio-economic sciences and humanities.*
[23] Both a converse way of saying ensuring inclusion.
[24] Here used in the plain English sense, and not as a synonym for Sen's 'capabilities' – see *Appendix: Open Access Credit and Sen's Capabilities Approach.*

Open Access Credit means that young people, having been taught financial literacy (in essence meaning the ability to maintain accounts and work to a budget in the context of a financial plan of appropriate timescale to their project[25]), are granted credit on terms and at rates of interest that they, not the lenders, determine out of the circumstances and profitability of their project. In a word, it is for the users or borrowers of capital to determine its 'terms of trade', not the owners or lenders of it.

The concept takes its cue from the statement in the EU programme call that

> "we lack systematic research about how markets, public sector and institutions (including incentives, norms and legal provisions) work for those groups of society which are marginalized and/or in a poor economic position."[26]

Within these terms of reference, our focus is on those people, in particular young people, who are without access to credit and therefore marginalised in the sense of credit-marginalised. On the face of it this may seem too narrow and specific a focus, but many aspects of marginalisation – *inter alia* poverty, long-term unemployment, low self-esteem – are the consequence of not having access to credit, let alone open access. Further, such problems are typically addressed from the income 'end' of finance rather than in terms of capitalisation. Income is important, of course, but it presupposes that *the activity receiving the income is capitalised*, and therefore does not touch or address the way that capitalisation takes place, that is to say, the way the resources (stock, equipment, etc.) on which the activity depends are financed.

Because Open Access Credit is capital-focussed rather than income-focussed, it is also not predicated on young people getting or having a job directly, but on them finding their way in life by identifying and unfolding their capacities, whether those capacities are innate or developed through education. It is, after all, on this that a job, if it is to be meaningful and enjoyable, is also predicated. In general, having a job is shorthand for being able to work. But how is work to be understood – merely as a means of earning money, or as a vehicle for human dignity? And where does it sit on the continuum between material and non-material considerations? Where is it located on Maslow's (1943) pyramid?[27]

Thoughts of this kind seldom if ever figure when the talk is of being 'in the labour market' or 'having a job'. And yet, while it can be said that if you find your path in life you will have a job, the converse is not necessarily true: having a job does not mean you have found your path in life!

The increasing marginalisation of young people (through growing worldwide endemic unemployment, for example[28]), is part of a world that is wed to capital as it promotes material productivity, rather than productivity as such as discussed earlier. This bias means we misread modern capital and everything associated with it because we have trouble conceiving non-material productivity.

In fact, the greater part of value today is of an 'invisible' kind.[29] Finance serves as an extreme, and

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[25] See Houghton Budd, Christopher (forthcoming) In the steps of Luca Pacioli – Double entry bookkeeping and financial literacy, *Teachers' Handbook of Financial Literacy* (provisional title), Berlin: Springer Verlag.

[26] European Commission (2012) Activity 8.1, SSH.2013.1.1-1 'Economic underpinnings of social innovation' of *FP7 Cooperation Work Programme 2013 Theme 8: Socio-economic sciences and humanities*.

[27] See later discussion.

[28] Deriving in part from the larger problem of 'technological unemployment', itself the result of a paradigm that prefers capital over labour. As recently noted in *The Economist* (18 January 2014, *The onrushing wave. In: Briefing: The future of Jobs*), in contrast to previous technological innovation, which has always delivered more long-run employment, not less, things may be different as a result of the growth of the new technologies.

[29] Speaking to the Economic Research Council, London, on 8 December 1999, the prize-winning founder and CEO of capital economics, Roger Bootle, pointed out that economics was brought up on the conditions that obtained three hundred years ago, with both its concepts and practices belonging to the world of diminishing returns. However, today's

for some untoward, instance of this insofar as one can describe today's footloose financial markets as evidence of capital that has escaped the logic of material productivity and cannot return to it. The capital in pension funds, for example, is many times more than the real economy needs or can absorb. The challenge is to recognise what the true economic counterpart to such capital is. For us, it is all that would result as *new* value if young people, in this case, were to be capitalised in line with what they want to do with their lives, and with what their capacities would give rise to, were they able to find clear and economic expression.

4.8 Changes

Turning now to the kind of changes Open Access Credit presupposes in terms of Beckert's thesis, what are the consequences for cognitive frames, institutions and social networks as regards today's financial and monetary world? Conversely and more plainly stated, how is that world to understand, (re)shape and organise around Open Access Credit?

We have already discussed that question in terms of modern finance's own co-evolutionary threefoldness, of which we gave three examples: the threefold structure of accounting, the three functions of money, and the global financial architecture. This creates the possibility of identifying the changes we have in mind in the financial world's own terms. That is to say, not only as changes that those *outside* that world deem important or necessary, but that those *within* it can also recognise.[30]

Although space does not allow the detail here, we have also seen that at the heart of Open Access Credit is the question: How to enable capital to become operational in a newly emancipatory way? It will have to be left to subsequent papers to map this out in further practical detail, but the outline response is readily provided. Although described here sequentially, the following topics are all-of-a-piece. None can be contemplated or occur without the rest.

4.9 Systems Change

The first and most dramatic is that if young people are to have access to credit on terms set by themselves – that is, on clear, financially literate assessment of what they can achieve out of their own future, not on terms set by past capital – then they must also become the emitters of money and the creators of credit.

Acting, not just thinking, reflexively, they would become the basis of what one can call 'citizenised central banking'. *Over time*, the behaviour implied by Open Access Credit would render unnecessary the emission of money and the creation of credit by banks and the banking system (including central banks). The banking system would then become what in its deeper nature it really is – a way of mirroring (rather than determining) our behaviour[31], reflecting back to us the effects of our economic deeds and therefore any discrepancy between what we intend and what we achieve, as also between which of our actions are benign and which are malign.

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conditions are those of 'weightless economics', characterised by continually *increasing* returns (to consumers, what is more, rather than producers), and calling for a corresponding change in concept and practice as regards processes outside the banking system.

[30] And, ideally, give expression and practical implementation. In an earlier piece (Houghton Budd and Naastepad 2014a), we have rehearsed our concerns not to oppose finance to 'social finance', because this leaves critical problems unaffected. The more effective approach in our view is to regard finance as de facto social, reserving the charge of 'unsocial' for instances of abuse or aberration (e.g. Enron).

[31] A consideration reflected in the observation by economic historian, Niall Ferguson, that 'Financial markets are like the mirror of mankind, revealing every hour of every working day the way we value ourselves and the resources of the world around us [so that] it is not the fault of the mirror if it reflects our blemishes as clearly as our beauty.' Interviewed by Aida Edemariam in *The Guardian*, Saturday 25 October 2008.

This does not betoken the end of banking, but it is a step-change in its evolution. Just as individual banks gave way to the banking system, so now that system has become a process. As a process, however, it is no longer located in the system, but only reflected there. That is why banks should no longer emit money or create credit (if indeed they do!), because in doing so, like a cataract in the eye they contradict their reflective possibility by creating an opaque surface, in which the true nature of modern economic life and modern finance can neither be seen nor see itself.

4.10 Market: Nonmarket

Because of its financial underpinnings and because it is grounded in double entry bookkeeping and accounting more generally, Open Access Credit has a further important dimension – one that is at once cognitive and institutional and has consequences for social networks.

Current convention has it that society can be divided into market and non-market sectors, but accounting does not require this because accounting makes no such distinction. Whether an organisation is a for-profit or a not-for-profit, it has to show a profit on operating.[32] The social, but not the accounting question, is whether this profit is fairly arrived at and fairly used. To date we solve this question by the device (made effective via taxation) of distinguishing between market and non-market, for-profits and not-for-profits. But this is necessary only as long as we are unable to self-manage our anti-social behaviour. Moreover, as indicated above, in the institutional and motivational landscape of Open Access Credit, the market / non-market distinction is not to be found. It has been metamorphosed – not only in terms of conscious and fair profit appropriation, but also in the sense that the capital allocated is optimal to the needs of the borrower, who holds in his balance sheet neither more nor less than is justified.

In this way, Open Access Credit is 'cross platform'. It does not conform to the market and non-market convention, unless by that one means profit appropriated by the individual and profit shared by him with all stakeholders. Nor does it conform to the notion of perfect markets and market failure. It is focussed on whether a young person, able to avail himself of Open Access Credit, is able to succeed in what he sets out to do. And instead of contextualising that with failure as the only alternative, requiring some external agency to pick up the pieces, it is conceived in terms of walking with the borrower (not just taking some real collateral and wishing him well), and the need to tack, rather than straight sail, in order to reach one's destination.[33]

4.11 Motivation and Empowerment

If they are to be real and long lasting, systemic change, as social innovation in general, cannot occur in the abstract or merely by fiat of government or policy makers. It needs to be born of or at least reflect a change in motivation, behaviour being the interface between the two. In other words, systemic change presupposes change in motivation, and vice versa. Two sides of one coin; neither can exist or take place without the other. To start change that is both systemic and motivational, however, one needs to occupy their interface, which is where Open Access Credit is located.

In this regard, albeit in a seemingly minor, even trivial, sense, Open Access Credit also takes heed of Michael Mann's powers analysis[34], in that it entails a significant change in power relations, especially as regards capital allocation. To date, the allocation of capital stems from the *past* and from those who *own* capital. Under Open Access Credit, the basis of capital allocation shifts to the *future* born of those who *use* capital. Conceptually, instead of preserving capital the idea is that it

[32] This topic is discussed in more detail in Houghton Budd and Naastepad 2014a, 2014b.
[33] Alluding to another post Renaissance development: sailing into, no longer only before, the wind.
[34] Michael Mann: *The Sources of Social Power*.

will be used up (as, indeed, accounting shows it always is when invested), so that new capital can rise from the ashes of the old, so to speak.[35]

Open Access Credit is therefore about significant empowerment of young people but an empowerment grounded in taking responsibility for their own actions.

4.12 Questions of implementation

Needless to say, all these topics imply substantial changes in policy. *Cognitively*, in regard to how we understand capital in particular. *Institutionally*, because of what Open Access Credit entails by way of contractual obligations, property rights, financial literacy and so on. And in terms of *social networks* because of its implications for the world of finance – ranging from the part, if any, played by such things as crowd funding, to its consequences for banking practice.

Admittedly, these changes are anticipated rather than intended or to be designed in. They are expected to follow on, rather than be engineered, accommodating of Open Access Credit not legislating it. Key to this, but still to be worked out, is how such things can be made measurable and therefore be measured, a challenge that raises the question of implementation. Is Open Access Credit doable? Can its theoretical promise be made practicable? Would young people in fact be less marginalised by Open Access Credit?

Such questions cannot be answered without 'live' and on-going case studies designed to track the changes implied by Open Access Credit and to assess[36] its effects in terms of marginalisation. Our primary idea in this regard is that such case studies should embody the imparting of financial literacy to young people and study its effects: In what ways does financial literacy de-marginalise them?

We say this because a main expected consequence of Open Access Credit is not in regard to its institutional counterparts, unavoidable and important though these are, so much as in its epistemology. The way we understand finance and in particular the way money issue and credit creation are thought to take place is paramount. By taking these functions to themselves, a new generation becomes possible, whose approach to and experience of finance is not that of those who have been found wanting in today's world of continuing crises and endemic inequitable wealth distribution.

Suitable cases have to be identified, and their frameworks formulated.[37] This, however, comes later. Our aim in this aphoristic last section has been no more than to outline what is needed.

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[35] The image of the eucalyptus comes to mind, a tree that regenerates itself by spontaneous self-combustion and immolation!

[36] It remains to clarify how this assessment will be conceived and conducted.

[37] This entails a larger task than many presupposes: the revisiting of many textbooks and the financial literacy associated with them. Christopher Houghton Budd is part of a project to do just this with regard to how to teach secondary school teachers how to teach finance to adolescents (aged 15-19).

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