An Ecology of Financial Services

Some Practical Steps from the 'Web of Wealth' [1]

The Long Finance[2] initiative is proposing that any approach to finance capable of delivering stable services over a timescale of 75 years requires an ecology of services. In this language the opposite of a stable ecology is a monoculture of 'the one best way'.

Resulting from discussions[3] first held in 2007 about the concept termed 'reflexive wealth'[4] and the subsequent establishment of the Web of Wealth website[5], our focus has been on what we claim are the fundamentals of any economy, in particular the transparency in practice of economic transactions to the parties involved. The supporters of the Web of Wealth are therefore concerned with understanding the process of real wealth creation, where wealth keeps its connotation of wellbeing and is distinguished from the accumulation of money.

This paper attempts to forge a connection between, on the one hand the concepts of an ecology of financial services and of wealth creation, and on the other hand implementable services that could form the bottom layer of an ecosystem of services. We claim that this approach is crucial because our observation is that these bottom layers are largely missing, leading to instability in the existing monocultural system.

As a community concerned with an ethical sense of the huge injustice being done to society under a cloak of supposed economic necessity we are wanting to support the Long Finance Initiative by encouraging it to focus more closely on what needs to be done to provide a firm foundation for any sustainable finance system. We present our ecology below:

Inputs	On the Properties of a System	Outputs
Biological metaphor and systems theory results: resilience implies and requires redundancy.	A monoculture appears to be a matter of convenience and economic universality like the Euro. However, monocultures are the type of 'systems' most vulnerable to unexpected threats, in the sense that by their very singular nature they have no resilience or redundancy within them. If a monoculture goes wrong, it goes wrong badly and may even collapse completely.	*We need a diverse ecosystem with services that play different roles.*
Assumption that the financial system should meet the requirements of people who need to use it.	We have a financial monoculture and it does not meet the needs of the people it is supposed to serve, either on its own terms or in terms of its ability to withstand shocks. The major supervisory institutions appear to be managerially incompetent at both the macro and micro levels.	*Focus on systemic role of financial system in the natural economy*

Systemic requirements statement: implied policy deficit in current system

For the vast majority of people in our society financial services need to be completely reliable and remarkably unexciting – or boring. They just need to work reliably at performing important social and economic functions effectively over the long term. They need to be accessible to people who may not have much money and they need to be usable by people who do not understand finance.

This is visible in the national and international interest in community banking

Biological metaphor extended to include development ordering and mutual stabilisation of environment.

Natural ecosystems, in terms of their development, start at the bottom and work up. The simplest organisms appear first and gradually create the conditions for more complex organisms to thrive. In a high diversity ecosystem there are hugely complex webs of interdependency that allow the system as a whole a great deal of redundancy in coping with change.

The sense of complementarity and natural checks and balances is lacking in the financial system. Complexity should add to stability,

Order has its own dynamics: systems theory

The price of this self-stabilisation is the creation of tipping points where, beyond a certain (unknown) level of change, the system may radically restructure itself.

System design for stability will only hold within set limits.

Our Proposal

This focus is intrinsic to the logic of the biological metaphor

Our proposal in beginning to establish an ecology is to mimic nature in paying attention to the simplest possible financial functions that allow economic life to sustain itself. These will be outlined below.

This is not a matter of whether corporate provision is viable.

Social research by Aidan Ward et al 2008[6].

Interestingly, the research I have done in this area overturns some of the most basic assumptions of the monoculture we have now. I found that the basic unit of interaction with financial services was a social group, not an individual.

Economics and its support in financial services is fundamentally social.

Exchange cannot take place by a lone individual. The interaction is a matter for the social context.

The fundamental factors in service design that were (re-)discovered by this research are:

- Peer support and peer pressure in taking effective action
- Discussion and debate about the meaning and value of transactions
- A community perspective and negotiation of

Meaning and value need to be established in a social context and cannot be taken as givens or as external to the context.

the significance of individual action on the community financial position

Political and social diversity leading to financial system diversity

The last historical period when this sort of work was addressed was the 19th century with its religious revivals and the invention of all sorts of mutual savings and insurance schemes to provide for people excluded from the establishment.

The history is available and well documented[7]

Research into the needs for community banking functions. History of grass roots financial innovation.

We comment briefly on the major functions that need to exist on the bottom levels of a financial systems ecology. These functions tend to be missing or poorly developed in our existing financial system. The sections are structured to give both conceptual definitions and examples of the sorts of practical issues that are raised, both problems and solutions.

In an ecology of services, what separate services are at the bottom? How might they be provided?

The Fundamental Services

An Economy of Goods: Clearing

The separate functions of money are the subject of much research into alternative money systems. Clearing we assume to be a mechanism with institutional underpinning.

If the fundamental economic activity is the exchange of goods and services for mutual benefit, then as soon as we move beyond barter there is a need for a token system (money, broadly taken) to facilitate the exchange. This system works if and when there are few potential transactions in the system that have not been completed, that is a clearing system needs to clear all transactions (eventually) so that the economic benefit to all can be realised.

Systems like boot fairs and ebay indicate a mass of transactions that would not be cleared without these mechanisms.

Community Finance Solutions at Salford University have researched the regulatory history.

Clearing applies to individuals (essentially sole traders) and to organisations that need to exchange goods and services. Economic units are self-creating unless restricted by regulation – a very common restriction. There may well need to be different types of clearing mechanism for different types of transaction.

Time banks are used to clear transactions like volunteering

The Wikipedia entry for LETS[8] gives up to date links to projects.

LETS is an example of a clearing mechanism for transactions that are not cleared by the money system. LETS now has sponsorship at UN level and there is free-to-use software available to support the mechanism.

The multiple roles played simultaneously by money must be unpicked if we are to understand fundamentals.

We assume that given multiple mechanisms to clear different sorts of transaction, more types of value can be signalled between economic agents and there is a greater depth of economic potential within a given social unit. With greater diversity of signalling, then it becomes possible to unbundle all the simultaneous signals currently carried by price.

Alternative schemes need to be a more integrated part of the ecosystem before they can add resilience.

An Economy of Conviviality: Association

All economic activity generates a surplus but it is common not to measure it or to let it accrue to the economy that created it.

Communities need to be able to use some of the economic surplus they generate to secure a range of community services. They need to be able to understand the system of exchange on which the community is based and to debate the degree to which they need to develop elements of sustainability, self-reliance and care of the environment.

The transparent generation of a surplus that is re-invested in economic potential is the glue that binds society.

The opacity of the link between revenue and spending in local government is called "the haze".

Association is greatly facilitated by transparency in the local economy and in the goods and services procured for the community from the surplus it generates. Transparency allows the discussion of community values to be properly embedded in an understanding of how the local economy works.

Discussion of values in the context of being able to enact them is a crucial step in sustainability

See the Community Land Trust National Conference website [9].

Self-funding community programmes, such as Community Land Trusts, show just how much potential there is in communities being able to generate wellbeing for themselves. We would draw attention to the degree of work and self-sacrifice needed to get to workable local self-government.

Wellbeing comes from getting organised, not from rich pickings

An Economy of the Means of Production: Credit

The main structural problem with money is that it is created only as debt.

There is no need for credit to be based on some fictitious shortage of capital (lack), or on a commodity notion of money, that it has a price. And credit needs are specific to the individual or organisation requiring it. A manufacturer may need credit to fund the time between materials purchase and sale of the finished product. An individual may need time to establish a whole new service while demand builds up.

Credit needs to be fit for purpose and not rationalised across different types of need.

There is not a deficit in capital in developed countries, it is merely mis-allocated on the basis of a fictional short supply.

In essence credit is about clearing over time, and ways need to be found to clear long term transactions as necessary. Many transactions and services cannot be instantaneous. It is important to separate this requirement from the notion of payment terms.

Better ways of signalling will allow better decisions about which long term transactions need to clear.

The longest term universal social investment (credit) is in education. It has no guaranteed economic return, and most of the attempts to manage it for better return backfire and reduce the value of the investment. A generalised investment strategy based on the insights of the education model would be a much more fruitful perspective, than a financially based strategy.

Wellbeing can only be increased if there is continued negotiation of social values.

A credit mechanism would operationalise the values of the social unit it operated on behalf of, maintaining full transparency of the effect of past credit decisions.

An Economy of Time: Saving

How can a future generation commit to honouring a transaction invoked before they were born?

Storing value is the most problematical function because the future transactions implied do not have a way of being grounded. This function is better thought of as the inverse of the credit function in all its diversity than as putting money on deposit. Saving is also about clearing over time, thus emphasising that accumulation is not a financial service to anyone.

Bernard Lietaer's Terra currency [10] addresses these issues.

Value can only really be carried forward in time by a process of ongoing transactions, the continuity that implies, and continuing surplus generated. The notion that the integrity of saving is a question of investment in production that increases wellbeing is salutary.

The loss of transparency in the basis of future value is particularly damaging.

In the 19th century it was normal for entrepreneurs to give their life savings to charity.

Many affluent people are investing in schemes whose social aims they want to succeed. Only on the basis of social change is the capital of their investment safe. What is the price of saving?

An Economy of Exposure: Spreading Risk

Dealing with risk is always primarily about managing risks, not about separating risk from assets the way financial "solutions" normally do. People need to be able to mutualise risk in a way that makes disasters less devastating, but without detracting from their ability to manage the risk in more direct ways.

See the research paper on the cybernetics of risk by Ward & Hoverstadt [11].

One of the roots of the credit crunch was the separation of financial risk from the assets involved. This led to a situation where financial investors had no idea what the risks were and where the underlying asset risk went unmanaged.

Research by CFS on insurance via CDFIs [12]

One proposed mechanism for mutual insurance is to copy the layered insurance schemes used by many corporations. Below a certain limit insurance claims are met by the members collectively and above the limit a low cost external insurance scheme kicks in.

Mutual schemes encourage active risk management by all members.

In Conclusion

Without needing to go into any detail it is possible to describe bottom layer financial services that allow economies to develop. The proposition is that there exists a minimum set of services that gives a complete enough coverage of the basic needs of social systems in developing an economy. This minimum set needs to be complete in a given situation, and multiple providers of a given service we would regard as healthy.

There are many regulatory barriers (in the UK) to implementing some of these services, which would indicate a need for a moratorium on regulatory sanction while an ecosystem became established. Of course, an ecosystem cannot be regulated by regulating the parts and entirely new approaches to regulation would be needed to taken advantage of the self-stabilisation and self-regulation properties of the system.

There are partial examples of some of the services, some of which are indicated above, and there are studies that indicate how some of the present failings could be addressed by a more diverse, structurally redundant approach. We feel that the key concept is transparency and that all these mechanisms need to be essentially transparent to all their users. This alone would allow economies to self-correct. The major missing component in the entire suite is support for signalling more dimensions of value than in currently possible.

*by **Aidan Ward**[13] for Management-NewStyle & The Web of Wealth – March 2010*
with contributions from Trevor Hilder, Pat Hoverstadt, David Howard, Peter Kawalek and Richard Veryard.

Endnotes

[1] The focus of a loose collection of independent consultants motivated largely by an ethical sense of a huge injustice being done under a cloak of supposed economic necessity. We are concerned to support the Long Finance Initiative by focusing it more closely on what needs to be done to provide a foundation for any sustainable finance system.
[2] http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1019
[3] Hosted by *Management-NewStyle* and including Aidan Ward, Pat Hoverstadt, Trevor Hilder, and Peter Kawalek.
[4] http://www.firstmetre.co.uk/UserFiles/File/ReflexiveWealth.pdf
[5] http://webofwealth.org/home
[6] http://www.firstmetre.co.uk/UserFiles/File/PaymentClubRep.pdf
[7] See for example:*Religion, Business and Wealth in Modern Britain*, Ed David J Jeremy, Routledge.1998
[8] http://en.wikipedia.org/wiki/LETS
[9] http://www.clt-conference.co.uk/
[10] http://www.terratrc.org/aboutus.html
[11] http://www.firstmetre.co.uk/UserFiles/File/PatH.pdf
[12] http://www.communityfinance.salford.ac.uk/
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