Book Review

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Value(s): Building a Better World for All
by: Mark Carney
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Mark Carney served as the Governor of the Bank of Canada from 2008–2013, and as the Governor of the Bank of England from 2013–2020. In doing so, he led the former through the financial crisis, and headed the latter prior to the onset of the COVID pandemic. Thus, it is not surprising that in addition to the existential threat of climate change, he addresses financial crises and pandemics as the three main challenges of our times, amidst a backdrop of public distrust, globalisation, and rapid technological change (p.2, p.5).

In the book, Carney argues that markets are crucial for finding solutions to the most pressing problems of our times (p.130, p.473). While he upholds the dynamism and efficiency of markets for prosperity and wellbeing, he qualifies that their effectiveness is based on 'the values of society' (p.130, p.474), which include solidarity, fairness, kindness, and sustainability, and accordingly, must be nurtured to sustain an inclusive capitalism (p.4, p.139). He views these values as institutions themselves and deems them more important than geography or trade in explaining growth (p.473). Additionally, he cautions against market fundamentalism that depletes social capital (p.9).

In Chapter 1, Carney illustrates the distinction between market value and values in the context of the wages earned by essential workers. He mentions that while mainstream economics equates wages with marginal contribution, the dedication of workers undertaking risky public transport during COVID is beyond market value (p.15). However, he does not critique the principle taught in ECON 101 that living standards are based on productivity, for as significant as essential workers have been during the pandemic, they still earn a pittance compared to overpaid CEOs and financial executives, whose contribution pales in comparison. Although, he does state that neoclassical economics shifted the focus of value from objective value based on labour (an idea shared by the classical thinkers including Smith, Ricardo, and Marx) to subjective value based on consumer preferences (p.39, p.41).

Carney pushes back at market fundamentalism by freeing Smith from the standard free market narrative. He states that despite being called 'the father of laissez faire', Smith used the phrase 'invisible hand' only once in *The Wealth of Nations*[1] (p.28). He adds that Smith would not have recognised the mathematical representations of markets and would have instead emphasised that effective markets require sentiments (or values) including trust, fairness, and integrity (p.29, p.32). Smith also cautioned against both consumption of luxuries (which Veblen would later term conspicuous consumption) and rent seeking by businesses that tamper with the market through collusion and price fixing (p.30, p.50). Apart from providing a picture of Smith that differs from the one in neoclassical circles, Carney mentions Marx, for whom financial speculation undermined production and mechanisation displaced labour, reducing its bargaining power and thereby leading to the class struggle (pp.38–39). Thus, by mentioning the ideas of the classical thinkers, Carney effectively creates a narrative on values that stands in stark contrast to neoclassicism.

In Chapter 2, Carney continues with his narrative against market fundamentalism by stating that people care about dignity, purpose, and meaning beyond mere happiness (or in economics parlance, utility) (p.47). He adds that the distinction made by the classical thinkers between productive and unproductive activities, or between value adding and rent extracting activities, which have been downplayed by neoclassicism, should become relevant again today with the onset of the fourth industrial revolution (p.49, p.53, p.124). He critiques standard neoclassical economic theory that assumes perfect competition, complete markets, and rational self-interested individuals that can calculate the probabilities of future states of the world (p.50, p.187). Criticising neoclassical theory, he states that the real world consists of oligopolies and monopolies that exercise market power, and that 'widespread damage can be caused' when markets are not complete, as in the case of hedging financial risks (p.50, p.51). He adds that markets are not always self-equilibrating, as shown by the financial crisis, and that people are not always rational, as they are prone to 'frailty, exuberance, and pessimism' (p.176, p.180, p.185). Overall, Carney highlights the limitations of neoclassical economics and deems the dynamism and efficiency of markets as significant to addressing the pressing issues of our times.

In Chapter 3, Carney vitiates the neoclassical idea that money is created by new deposits, instead arguing that it is created by banks making loans (p.60). He also highlights the limitations of the gold standard by stating that under such a system, the burden of economic adjustment fell heavily on labour, and that restricting the money supply to the availability of gold could both limit commercial activity and exert deflationary pressures that would increase the real debt burden and contribute to the insolvency of banks (p.68, pp.71–72, p.109).

In Chapter 4, he continues that modern money is not backed by gold but by confidence that the integrity of bank notes is protected against counterfeits, that its value would not be eroded by inflation, that debt burdens would not increase by deflation, and that money will not disappear in a depression, financial crisis, or a pandemic (p.89). Thus, he is critical of the gold standard and seems close to the thinking about money creation central to modern monetary theory and the theory of endogenous money creation espoused by many heterodox economists, even though he would reject the prescriptions of such theories.

Carney states that the two broad objectives of central banks include monetary and financial stability. The former maintains the value of money by ensuring low, stable, and predictable inflation, and the latter ensures that the financial system can support businesses and households through crises (p.90). He also highlights that monetary policy, financial and climate policy are subject to the time inconsistency problem. In the case of monetary policy, there is the temptation to influence interest rates for short-term employment at the cost of long-term inflation (p.333). Similarly, with financial policy, lighter regulation in the short run justified by temporary growth leads to financial and macroeconomic instability, lower growth, and higher unemployment in the long run (pp.94–95). Likewise, politicians do not pursue substantial climate change policy, as the costs are incurred immediately but benefits are achieved in the long run (p.334). Overall, in contrast to standard textbooks, Carney brings a practitioner's view on the objectives of central banks and illustrates the time inconsistency problem in multiple ways.

In Chapter 5, Carney reiterates that "laissez-faire is not a good foundation for sound money" (p.65). He mentions that proponents of decentralised cryptocurrency deem it more trustworthy than centralised fiat money, as its fixed supply prevents its debasement, its use is free from risky private banks, and it is free from tax authorities (p.112). Likewise, these proponents consider it more efficient, as it cuts out financial intermediaries and allows direct payments between parties engaged in a transaction (p.112). However, according to Carney, it is unlikely to become an effective medium of exchange and a unit of account because transactions can be slow and carbon intensive. And, in addition: cryptocurrency is neither the liability of any institution nor backed by any central authority, there are concerns about cyber-attacks, loss of customer funds, money laundering, terrorism financing, and tax evasion. And he writes, "if enough people take the subjective view that Bitcoin is a safe haven against inflation … then there will be demand for it as an asset rather than as money per se" (p.114). Overall, he is critical of cryptocurrency even as it is sometimes touted as the next stage in the evolution of money.

In Chapter 6, Carney revisits the critique of markets and the erosion of values. He states that while neoclassical economics emphasises efficiency, at the same time markets encroach on 'human relationships and civic practices' and undermine 'social and civic values' (p.124, p.137, pp.143–144). He illustrates this by poor individuals forced to sell a kidney. Although markets (based on standard neoclassical reasoning) allow for mutually beneficial trades, thereby maximising efficiency, they can also undermine human dignity (p.142, p.143). Continuing with this critique, he states that markets undermine community and affect mental health by turning life into a 'scorecard competition', which leads to stress and dissatisfaction even among the 'winners' (p.127, p.147). Additionally, offering people financial incentives crowds out their intrinsic commitment, as it ignores non-pecuniary values like getting satisfaction from helping colleagues and clients (p.144, p.145). He illustrates this with the example that turning blood into a commodity crowded out people's altruism and obligation to donate blood (p.145). Overall, he criticises the commodification that results through markets (a point made by Marx in capital) and underscores the limits of market-based policies to spur conduct that is best incentivised through values.

Carney argues that markets depend on a social contract, which in turn rests on equality of opportunity, distributive justice, and intergenerational fairness, all of which maximise social wellbeing (p.124, p.127). As such, he highlights the significance of income redistribution, which he justifies through the concept of diminishing marginal utility of money and adds that it can be welfare enhancing if there are large benefits for disadvantaged groups but only small costs for others (p.54, p.124). In contrast to neoclassical economists who downplay inequality, he mentions that inequality can be 'self-reinforcing and growth limiting', as the poor cannot invest much human capital, and that more equal societies have 'robust political institutions' for they 'invest for the many not the few' (p.125, p.126). He adds that the rich obtain higher returns on capital, access better schools, influence politics, and rationalise success, as they do not want to attribute it to luck (pp.137–138). Moreover, he buttresses his case by alluding to the OECD and the IMF studies that show that inequality is harmful for growth (p.125). Thus, going against the grain, he highlights inequality as an issue, although he does not discuss as much as he does with financial crises, pandemics, and climate change.

While Carney is critical of market fundamentalism and is concerned about the erosion of values, he states that many economies 'aspire to forms of' meritocratic or liberal capitalism, where the former imposes no legal constraint on earning income and the latter corrects for differences in initial endowments through provision of education and inheritance taxes (p.132). Referencing Fukuyama's thesis, he adds that historical processes culminate not in Marx's communist utopia but in the combination of capitalism and liberal democracy (p.131). He adds that the Reagan-Thatcher reforms reversed the wage and price controls, interest and exchange rate controls, public ownership of business, and bureaucratic red tape, by replacing them with free floating exchange rates, financial liberalisation, privatisation, and tax reduction on investment. Overall, he provides a centrist position, by stating that while productivity and income have increased and while millions of people have been lifted from poverty, inequality has increased, and values have become more pro-market under capitalism (p.134, p.177).

Having presented his concerns on markets and values in the first six chapters, in the next six chapters Carney delves into financial crises, pandemics, and climate change. He presents a view that the road to hell is paved with good intentions by stating that securitisation was based on the idea that a diversified pool of assets was less risky, and that financial innovation was initially about financial inclusion by promoting home ownership (p.155, p.182). He holds market fundamentalism responsible for leading to the 2007 financial crisis, based on the erroneous belief that if markets are efficient then bubbles can neither be identified nor their causes addressed, and to the subsequent 'rise of populism' (p.5, p.139, p.186). Moreover, he contrasts the privatised profits prior to the financial crisis with the socialised loss after the crisis, arguing that this "unjust sharing of risk and reward contributed to inequality" (pp.200–201). However, in contrast to the Schumpeterian idea of creative destruction and that saving a crashing system would exacerbate moral hazard, he references Bernanke that invoking moral hazard during the financial crisis would be 'misguided and dangerous' and argues that the crisis had the potential to withdraw access to credit for millions of households and businesses (p.169, p.376). Overall, he adopts a centrist position by critiquing market fundamentalism but also rationalising the bailing out of financial institutions.

Carney then addresses the COVID pandemic in the next two chapters. He states that the COVID crisis has revealed economic injustices, as 'essential workers have been undervalued', and that we are all in the same storm but not the same boat (p.258, p.372). He adds that high-skilled workers were able to isolate and reduce contact with strangers compared to low-skilled workers whose livelihood depended on travelling via public transport and maintaining contact with strangers (p.244). Moreover, education under the lockdown depended on having access to high-speed internet, which amplified the structural advantages of children from high-income households (p.245). However, he also states that with the pandemic, people focused on human compassion and not financial optimisation, and that they acted not as libertarians and utilitarians but rather as Rawlsians and communitarians, for they sewed masks, helped elderly neighbours, and delivered food to vulnerable populations (p.146, p.235, p.242). Thus, while highlighting the inequities, he also underscores how values drove people to help others during the pandemic.

Carney states that rather than focusing on the prosperity of the greatest number for policy making, we must focus on the most vulnerable, as the former leaves many behind, whereas the latter improves the common good from which no one is excluded (p.372, p.381). Generally, this implies that the focus should remain on the working poor, the young and those living in vulnerable island states in the context of climate change, and both the elderly and essential workers in the context of pandemics (p.372). Additionally, in a world with global supply chains, the COVID crisis has shown that local resilience must be prized over global efficiency (p.222, p.259). However, he adds that we fail to prepare for future pandemics and climate change because of high discount rates that reflect present bias, and because politicians are rewarded for providing immediate benefits instead of proactively working on preventing future crises (pp.51–52, p.224). Finally, he states that governments get through crises less through punishment threats and more through 'state legitimacy, competency, and social capital', as in the case of the New Zealand Government that was able to clamp down on COVID far better than the USA (p.238, p.241). Overall, he upholds a Rawlsian perspective in addressing financial crises, pandemics, and climate change, and emphasises the significance of values that build social capital in addressing these issues.

On climate change, Carney clearly states that global warming is "extremely likely to have been caused by human activity" (p.264). He depicts climate change as a supply shock that reduces productivity for those working outside, especially with rising temperatures, and contributes to forced migration, disbanding of communities and social capital, spread of disease with overcrowding and destruction of habitats, and conflict as people compete for scarce resources (p.276, p.279, p.281). Additionally, while advanced economies have benefited from decades of unfettered emissions, even developing countries must curb carbon emissions (pp.271–272). In this regard, limiting the temperature increase to 1.5 degrees Celsius keeps the climatic and natural systems from crossing the tipping point towards a vicious feedback loop that would exacerbate climate change (p.266). However, doing so would require leaving more than 80% of the current fossil fuel reserves in the ground, stranding these assets, and achieving net zero by "converting all energy use to electricity and converting all electricity to renewables" (pp.269–270, p.278). However, Carney is not a proponent of de-growth, since we cannot achieve the UN's Sustainable Development Goals without growth (p.338). Moreover, he states that we cannot achieve net zero without innovation, investment, and profit that is associated with the private sector (p.315, p.338). In essence, he looks to the dynamism and efficiency of the private sector to address climate change.

Having addressed the three pressing issues through Chapters 7 to 12, Carney delves into the deficit of trust in experts in Chapter 13. He states that trust in experts declined under COVID, as scientists were forced to backtrack on advice on wearing masks, the six-feet rule, and quarantining inbound travellers, which divided the population between those who felt that the COVID threat was overstated and those who felt that science was overtaken by political considerations (p.352). He also contextualises this trust deficit in the financial crisis, which neoclassical economists had failed to predict, let alone pre-empt (p.182). Additionally, he expresses the concern that while freely available information on the internet has been 'democratising and empowering', social media algorithms create echo chambers that promote the most extreme views (p.353). Overall, he is concerned about the deficit trust that is not easily remedied in the age of information overload and polarised narratives.

In Chapter 14, Carney critiques the neoclassical view that the firm is owned by shareholders and that its objective is to maximise shareholder value (p.390). He states that the view of shareholder primacy was chiefly advocated by the Chicago economists, but that shareholders are not really owners, given that limited liability company actions are not shareholder responsibility (p.391, p.394). He adds that shareholders are viewed as the biggest risk takers, but the risks undertaken by workers because “employees cannot diversify their exposure to a company” are downplayed (pp.49–50, p.391). Thus, as an alternative to maximising shareholder value, he highlights balancing the interests of other stakeholders in the company and emphasises that the firm has a purpose beyond profit to create value for all stakeholders (p.397, p.402). In short, going against the grain, he comes close to supporting the alternative framework of a ‘FairShares company’ espoused by Boyd and Reardon (2020, p.100).

In the final chapter, Carney highlights the issues of globalisation, technological change, and the inequality, insecure employment, and stagnating wages of the middle class in advanced economies (p.185, p.456). He adds that technological change will automate large parts of many jobs but only a few jobs would be fully automated (a process, however, already well underway), and that jobs would be created in fields that require emotional intelligence, social skills, and care (p.461). Moreover, he cautions that the owners of capital would chiefly benefit from technological change if it substitutes rather than complements labour (p.462). Therefore, he argues that we cannot subsidise capital at the expense of labour and that it does not make sense to have double-digit taxes on labour and single-digit taxes on capital (p.476). He adds that instead of large multinational companies, it is time to support trade for small and medium enterprises for inclusive globalisation, as many of the best ideas come from ‘the smallest beginnings’ (p.506, p.515). Finally, he supports gig economy workers through the minimum wage, holiday and sick pay, options to advance at work, and social welfare schemes to support mid-career training (p.478, p.479). Thus, he cautions against the skewed benefits to capital owners and instead argues for supporting small businesses and labour in the context of globalisation, technological change, and inequality.

Overall, Carney assumes a centrist position by balancing his critique of mainstream economic theory and market fundamentalism with the support for the dynamism and efficiency of markets in order to address the pressing issues of our times including financial crises, pandemics, and climate change. This position, according to economists like Reardon, is well grounded in today’s economy. Carney makes the case for values, including solidarity, fairness, kindness, and sustainability that underpin an inclusive capitalism. He adopts a Rawlsian perspective but does not support modern monetary theory or de-growth. As such, he does not identify his approach with radical, heterodox, or post-Keynesian economics. Nonetheless, many of his ideas come close to those espoused in such circles. As an example, Boyd and Reardon (2020) call for the dynamism and innovation of capitalism to simultaneously address climate change, contribute to profits, and achieve developmental goals (p.16, p.75). They state that inequality limits ‘wellbeing, growth, and happiness’ and argue for the inclusion of all stakeholders, as maximising shareholder value is not the primary objective of a business (p.79, p.83). Moreover, they critique neoclassical economics for assuming that perfect competition is the ideal way of allocating resources and for assuming an equilibrium economy, even as the real-world situation does not warrant such stylised assumptions (p.137, p.140). Thus, even though Carney may not agree completely with Boyd and Reardon (2020), he strikes common ground with such thinkers who are pushing for a pluralist perspective to address the pressing issues of our times. Overall, I would recommend this book, which seems to be Carney's first book for public consumption, for despite its voluminous length, the prose is simple, as it is targeted towards a broader audience. More importantly, it shows readers that when a distinguished central banker openly shares ideas that are akin to those in heterodox circles then standard neoclassical textbook theory really leaves much to be desired.

References

Boyd, G. and Reardon, J. (2020) *Rebuild: The Economy, Leadership, and You*, Evolutesix Books, London, UK.

Smith, A. (1759[2000]) *The Theory of Moral Sentiments*, Prometheus Books, New York.

Notes

1 The 'invisible hand' appears once in *The Theory of Moral Sentiments* [Smith, (1759[2000]), Pt. 4, Ch. 1, p.264], although not mentioned by Carney.