
THE REITH LECTURES 2020: HOW WE GET WHAT WE VALUE
Reith Lecturer: Dr. Mark Carney, former Governor of the Bank of England

Lecture 1: From Moral to Market Sentiments
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(00:00) Anita Anand: Welcome to the 2020 BBC Reith Lectures. In this tumultuous year, our lecturer is a man who brings a truly international perspective to some of the biggest global challenges facing all of us right now. In his series, 'How We Get What We Value', he will assess how the world has come to prioritise financial values over human values. He's going to argue that this has helped leaders into a minefield of triple threat; credit, COVID and climate, and possibly having scared us all out of our wits, he's going to suggest what we can do about it. This year's lecturer has been called a rock star banker, the outstanding central banker of his generation and the man with the most comprehensive book of contacts in finance. After completing a doctorate in economics, he went on to work in some of the biggest global financial institutions before becoming a central banker in both his home country of Canada and in the UK as Governor of the Bank of England, a post he left only earlier this year. Since then, he has been appointed as the UN Secretary-General Special Envoy for Climate Finance, and the finance advisor to our Prime Minister, Boris Johnson, for the UN Climate Change Conference in Glasgow next year. Let's meet him. Please give a very warm welcome to the BBC 2020 Reith Lecturer, Dr Mark Carney.

(01:30) Dr Carney: Thank you very much.

(01:33) [Audience applauding]

(01:40) Anita Anand: Well, look, it is very good to have you here and it has not been an easy 2020 for anybody. You've spent quite a lot of it isolating, haven't you?

(01:50) Dr Carney: Yes.

(01:50) Anita Anand: How's that been for you?

(01:51) Dr Carney: I've spent more than I'd like in time just with myself. I'm just out of two weeks of quarantine here in the UK and had two weeks when I originally had moved back to

Canada, and will have two weeks next week when I go back again. So that's six weeks, but there's many people have it much tougher, so.

(02:07) Anita Anand: Well, I hope you have many, many good books to read while you're doing that.

(02:10) Dr Carney: I had some lectures to write this past month, yes.

(02:11) Anita Anand: Yes, well, and we're going to - we're going to enjoy some of those. You know, normally when we speak of finance we talk about bulls and bears, but sharks have figured -----

(02:19) Dr Carney: Mmm.

(02:21) Anita Anand: ----- very peculiarly in your life. Tell us about that.

(02:23) Dr Carney: Well, there's a few sharks in finance, but maybe not the one people might think. It's interesting. As you mentioned, I did my graduate work here in the UK and I used to take the Oxford bus to London, to the capital, and to keep my eye out for a landmark, and the landmark was on an otherwise nondescript set of row houses in Headington where there was a giant shark sculpted - still is I believe - sculpted, going through the roof-----

(02:49) Anita Anand: Yeah.

(02:50) Dr Carney: -----of one of the houses and I understood that it had been put there because of the nuclear threat post-Chernobyl and the age of CND, but I took a bit of a different message, or a broader message of just the limits of sovereignty and independence and how threats from beyond our borders, at that time financial threats, cyber threats I guess developed over time and now of course, the threats of COVID. So what is true independence, what's sovereignty and how do we protect ourselves from it?

(03:16) Anita Anand: Mmm. You were Governor of the Bank of England for seven and a half years. You left in March this year.

(03:23) Dr Carney: Mmm.

(03:23) Anita Anand: You must be-----

(03:25) Dr Carney: Timing is everything.

(03:25) Anita Anand: -----quite a sigh of relief. I mean, I wonder, actually, for a man like you whether it is a thing where you think, phew, good timing, or where you think, oh, if only I was still there?

(03:35) Dr Carney: Well, two things. First, I was handing over to an incredibly able individual, Governor Bailey, and so I felt absolutely at ease with that and he has a great team with him. Secondly, I was getting a little tired of crises. I joined, I became a central bank governor at the start of the global financial crisis. We had the Euro crisis, we've had the ongoing climate crisis and then of course the COVID crisis was raring. I wasn't leaving because of the crisis, but I seemed to have a correlation with them and maybe somebody else should have a go.

(04:03) Anita Anand: Yeah, I just sort of - in my mind I see you playing fantasy governor of the Bank of England and sort of laying out your own strategies. Is it hard to let go and do you find yourself still doing that, this is what I would have done?

(04:15) Dr Carney: No, not really. I'm interested in what the governor and the various committees are doing at the bank. I am interested in that, but I - they're the ones in possession of all the information and are deliberating about it and taking the right decisions, so, no, I'm not sitting there second guessing, nor am I - I was in the Bank of England the other day, socially distance - I mean, I could have - it's a very large institution so it's easy to stay two metres away and saw the governor and it was great to see him there, but I didn't - no, I didn't.

(04:47) Anita Anand: When you look back at your governorship, seven and a half years is a long time. Do you have a proudest moment?

(04:53) Dr Carney: To be honest, there's not a specific point in time. I think that to some extent - this will sound a bit odd - I think the way the financial system performed once the COVID crisis start would - I had some quiet pride - now it's not quiet anymore because I'm broadcasting it, but quiet pride – no-one would listen to me before, now I get to say it - because it was one of the things that we had tried to do was to prepare the system, not just for the risks we knew about, but for those we couldn't imagine. And that really is the test of a financial system is when the shock comes that you don't expect that the system is able to perform, and the UK system I think, I think everyone would agree, has performed through that. So, yes, I think that's probably my proudest moment.

(05:35) Anita Anand: Well, maybe 'perform' is not the right word, but it is time now to hear more from you, so Mark Carney the stage is yours.

(05:41) Dr Carney: All right. Thank you very much. At some point every North American child learns a sentimental story by an American writer, O. Henry. It tells the tale of a newlywed couple one Christmas eve, penniless and frantic to find a gift for her husband, Jim, Della sells her long tresses of hair and uses the proceeds to buy a chain for his beloved watch. When they're reunited for dinner in their small apartment that evening, she discovers that Jim has just sold his watch to buy a set of combs for her hair. He has no watch, she has cropped her hair. And although they're left with gifts that neither can use, they realise how priceless their love really is. Now, when I first heard that story, it had its desired effect. I momentarily forgot about the hockey stick I'd been coveting and thought more about my mother's need for new slippers. It's in the giving that we receive. Of course, I was only eight then, and I hadn't yet learned the true economic meaning of Christmas. I'll come back to that later.

(06:51) For now, I want to take you on a journey from grotto to Glasgow, the city where these lectures begin and end. They start in Glasgow at the height of the 18th century Scottish enlightenment, the dawn of the industrial revolution and the home of the father of modern economics, Adam Smith. To many, this marks the rise of the market economy. The beginning of Smith's triumphs of his best-known idea, how the invisible hand works through markets to create prosperity. These lectures will end in the Glasgow of COP26, the United Nations Climate Change Conference of the Parties where the world will gather a year from now to try to put right what has gone so wrong, to turn what the industrial revolution has wrought into the sustainable revolution. These lectures will chart how Smith's moral sentiments turned into market sentiments, how societies' values became equated with financial value, how this contributed to this century's crises of credit, COVID and climate and how we can turn this around.

(08:05) Consider three paradoxes of value. Great minds from Plato to Adam Smith have pondered why water, which is essential for life, is virtually free, but diamonds, which have limited utility beyond their beauty, are so expensive. Why do financial markets rate Amazon as one of the world's most valuable companies, but the value of the vast region of the Amazon appears on no ledger until it's stripped of its foliage and converted into farmland? And how can we reconcile our celebrations of the extraordinary values of public service dedication and the heroism of healthcare workers with their low wages and perilous working conditions? These are all issues of how we get what we value. Concepts of value are rooted in philosophy, and more recently and narrowly in economic and financial theory. Values and value are related, but distinct. Values represent principles or standards of behaviour, their judgements of what is important in life, such as fairness, responsibility, sustainability, solidarity, dynamism, resilience and humility.

(09:23) Value is the regard that something is held to deserve, its importance, its worth, its usefulness. Value isn't necessarily constant but, rather, specific to time and situation. So think of Shakespeare's Richard III who despairs in battle, "A horse, a horse, my kingdom for a horse," or the value that we have placed on daily essentials during the pandemic. Over the centuries, there have been two broad schools of thought about what determines economic value. Objective and subjective. Objective theories contend that the underlying value of a product is derived from how that product is produced, and those theories focus on how that, in turn, affects wages, profits and rents. Proponents of objective value theory span Aristotle, Adam Smith, David Ricardo and Karl Marx. These last three classical economists lived during a period of unprecedented urbanisation, industrialisation and globalisation, and they placed the growth and distribution of value squarely in the context of the enormous social and technological changes then underway. All three would have found profoundly alien the view, widespread today, that economics is a neutral, technical discipline to be pursued in isolation of such dynamics.

(10:57) Adam Smith published two magisterial works. His second, 'The Wealth of Nations', is the most purchased, often cited and, arguably, least read book in economics. To understand the totality of Smith's thinking we should consider it alongside its much less famous predecessor, 'The Theory of Moral Sentiments'. Smith's writings warn of the mistakes of equating money with capital and divorcing economic capital from its social partner. Such errors can arise from reading a few, admittedly brilliant, pages of 'The Wealth of Nations'. This leads to the portrait of Smith as the father of laissez faire where individuals have full freedom to transact business without any interference. But this is a caricature that grossly devalues this most considered and universal of the worldly philosophers. The phrase 'invisible hand' appears only once in that book, but three times in Smith's collective writings. The central concept that links all of Smith's works is the idea that continuous exchange forms part of all human interactions. Exchanges of goods in markets, exchanges of meanings in language and exchanges of regard and esteem in the formation of moral and social norms.

(12:24) Smith believed that we form our norms or values by wishing to be loved and lovely. That is, to be well thought of or well regarded. We receive feedback from perceiving how others judge us, creating incentives to achieve mutual sympathy of sentiments. This leads people to develop habits and then principles of behaviour. So moral sentiments are not inherent. To use the modern terminology of Richard Dawkins, they're social memes that are learned, imitated and passed on. Like genetic memes, they can mutate in behavioural cascades and tipping points. Smith's conception of markets, like all his economics, must be seen in their broader social context. Markets are living institutions embedded in the culture, practice and tradition and trust of their day. Those markets determine the distribution of value, which he believed, as did Ricardo and Marx after him, is fundamentally derived from labour. In the late 19th and early 20th centuries a group of economists known as the neo-classicists, launched an upheaval in value theory, comparable to the Copernican revolution in science. Copernicus transformed astronomy by moving its axis from the earth to the sun, and the neo-classicist shifted the axis of value theory from the factors of production, like labour, to the perceived value of goods to the consumer. In other words, from the objective to the subjective.

(14:05) According to this new group, people value goods that satisfy specific wants. It's only because people value these goods that the inputs that go into making them have value. Labour does not give goods value, labour is valued because the good it helped to create is valuable. Value is in the eye of the beholder, not in the sweat of the labourer. In the century since the neo-classicist, subjective value theory has gone mainstream, and the combination of this subjective value theory, in which price equals value, and a cursory understanding of the invisible hand, in which markets yield optimal outcomes supported by unseen and unchanging moral sentiments, promotes a view that all market outcomes equal value creation and, through them, the growth of the wealth and welfare of nations. The concept of value, synonymous with economic theory a century ago, is now barely discussed. But in her magisterial book, 'The Value of Everything', the economist, Mariana Mazzucato, makes the case forcefully that we need a contested debate on value. So let's have one.

(15:24) The starting point is the right balance between the market and the state, and this has shifted in recent decades with markets gaining in stature and influence. The market is becoming the organising framework, not only for economies, but also increasingly for broader human relations with its reach extending well into civic and family life. In parallel, the social constraints on unbridled capitalism, religion and the tacit social contract have been steadily eased. The Thatcher/Reagan revolution fundamentally shifted the dividing line between markets and governments. This change in direction was long overdue and their reforms unleashed a new dynamism. With the fall of communism at the end of the 1980s, the spread of the market grew unchecked. And so by the time I joined the G7 as the Deputy Central Bank Governor in the early 2000s, the conventional wisdom of market efficiency reigned supreme. Policymakers like myself had nothing to tell the market, they only had to listen and learn. Put it another way, the market was always right. But as my central bank colleague, and later Italian Minister of Finance, Tommaso Padoa-Schioppa once observed, when we grant an entity infinite wisdom, we enter the realm of faith. Faith can guide life, but blind policy, and such cognitive capture led to the self-cancellation of the policymakers' judgement as only the market knows. And such trust dictated that the only solutions proposed to market failures were to add more markets or to reduce regulation further. And we'll examine the fallout from this approach in the next lecture.

(17:17) For now, let's concentrate on three related risks that the combination of subjective value and market fundamentalism encouraged. Now all economic theories are based on a number of assumptions, and subjective value theory is no different. At its core, it assumes an idealised world of perfect competition, commodity goods, complete markets and rational consumers and financiers. The many cases when these assumptions don't hold drive a wedge between private and social value. For example, when one or just a few companies control a market, prices are too high and production is too low. Or if markets are incomplete or suddenly collapse under stress, small shocks can lead to widespread damage to asset prices, to jobs and to welfare. Or when there are externalities, that is when there are costs or benefits that we bear over which we have no control, individual actions can drive social disasters, like the climate crisis.

(18:27) Now the second set of risks relate to human frailties. Behavioural science has demonstrated we're far from perfectly rational when making decisions. We tend to support our past decisions, even if new information suggests they're wrong. We tend to think of examples that come readily to mind and think that they're more common than they actually are. And we're irrationally impatient. In this context, it's important that subjective values are time and situation specific. Ice cream on a hot summer afternoon is more valuable than on a cold winter morning. Water in a desert is essential, as are healthcare workers, ventilators and testing capacity during a pandemic. If we value the present much more than the future, then we're less likely to make the necessary investments today to reduce risk tomorrow. So despite a history of financial crises that stretches back centuries, banks didn't build adequate rainy day buffers in advance of the global financial crisis. Or despite overwhelming scientific evidence, society is still underinvesting in addressing climate change, even though actions today will be less costly than those required in the future. And despite varied and ample warnings, we didn't invest adequately in preparedness or healthcare capacity for a pandemic. These tragedies of the horizon won't be addressed by fixing market imperfections alone.

(20:04) The third and most profound set of risks arise from the drift from moral to market sentiments. They include the undercutting of the social foundations of the market, the corrosion of values arising from pricing of goods, services and civic virtues, that have been traditionally outside the market, and the flattening of values by forcing decisions to be made according to utilitarian calculations. Let's take the first of these drifts, the changing nature of markets. Now of course markets don't exist in a vacuum, the market is a social construct whose effectiveness is determined partly by the rules of the state and partly by the values of society. It requires the right institutions, a supportive culture and the maintenance of social licence. Values of trust, integrity and fairness are critical to effective market functioning, and these values have increasingly been taken for granted. Milton Friedman's classic pion to shareholder value includes the following caveat: A corporate executive's responsibility is to make as much money as possible, while conforming to the basic rules of society, both those embedded in law and in ethical custom.

(21:28) And where do these basic rules come from? Economic and political philosophers from Adam Smith to Friedrich Hayek have long recognised that beliefs are part of the inherited social capital which provides the social framework for the free market. That social capital is the product of both formal institutions and culture, including what the Nobel laureate, Douglass North, referred to as incentives embodied in belief systems. The question is whether the expansion of the market, an expansion that Friedman helped unleash, is changing the underlying social contract on which it has been based. Could the emphasis on the individual over the community or on our selfish traits over our altruistic ones imperil both the market's effectiveness in determining value and ultimately society's values? In short, in moving from a market economy to a market society, are we consuming the social capital necessary to create economic and human capital? The ethical customs that Friedman assumes can change. Indeed, many of those necessary to support market functioning are corroded when financial returns become disembodied from their impact on other stakeholders. Friedman himself revealingly acknowledged the importance of such moral sentiments when he observed that a company might devote resources to provide amenities to its community, but only in the expectation of attracting employees, and that it could engage in such hypocritical window dressing by calling this social responsibility lest it, and I quote, "Harm the foundations of the free market to admit that this fraud was all in the pursuit of profit alone." This is how corrosion happens, and did happen in the ensuing decades.

(23:31) And that brings me to the second drift, which is the way the spread of market mechanisms can change and corrode society's values. A traditional concern is what happens to our values when we have a hierarchy based only on wealth, whereas the novelist, Tom Wolfe, might have put it, "Boom, a statisphere built on money." Smith's theory of moral sentiments argued that people form their norms and values by wishing to be well thought of or well regarded, yet, increasingly, the value of something, some act or someone is equated with its 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 it governs the whole of life from the allocation of healthcare, education, public safety and environmental protection. Standard economic reasoning is that the spread of market exchanges increases efficiency without moral cost, but when everything becomes relative is anything immutable?

(24:40) The philosopher, Michael Sandel, takes the view that market values and reasoning are reaching into spheres of life previously governed by non-market norms, including procreation, child rearing, health and education, sports, criminal justice, environmental protection, military service, political campaigns, public spaces and civic life. There is considerable evidence that commodification, putting a good or service up for sale, can corrode the value of the activity being priced. Take the celebrated study of how to incentivise children who are raising money for charity, would students raise more money if they were paid? In fact, the group of children motivated only by charitable and civic virtue raised the most. Similarly, fines for late pick-ups of children from day care are viewed as a fee for extra hours, and voluntary blood donations in the UK out pays blood for sale in the US. In all these cases money crowds out civic norms. A moral error of many mainstream economists is to treat civic and social virtues as scarce commodities. This ignores the extensive evidence that civic virtue and public spirit atrophy with disuse would grow like muscles with regular exercise. As Aristotle observed, virtue is something we cultivate with practice, we become just by doing just acts, temperate by doing temperate acts, brave by doing brave acts.

(26:15) This observation will be familiar from the civic response to COVID. No-one paid the groups that spontaneously volunteered to sew and donate makeshift PPE and protective masks. No citizen drew on government payment to help elderly neighbours or the homeless in their communities. And no government fiat told over one million people to volunteer for the NHS. Solidarity during the first lockdown was, yes, contagious. When we outsource civic virtue to pay third party providers, we narrow the scope of society and encourage people to withdraw from it. There is extensive evidence of a commercialisation effect. When people are engaged in an activity that they see as intrinsically valuable, offering them money weakens their motivation. By depreciating, we've been crowding out the intrinsic interest or commitments. In these ways, the spread of the market can undermine community, one of the most important determinants of happiness.

(27:22) Now the final corrosion of the drift from moral to market sentiments is how the spread of subjective value flattens values when we make decisions. An advantage of the subjective approach to value is that it is neutral. Most things can be compared by a common, widely available standard, that is, the market price. The disadvantage is that it sets in train a process in which welfare is interpreted simply as the sum of all prices. This flattens values, adding them up with no hierarchy or consideration of their distribution. As we shall see, it encourages trade-offs of growth today and crisis tomorrow. Trade-offs of health and economics, trade-offs of planet and profit. And this is compounded by something which should be a familiar problem, that subjectivism implies that anything not priced is not valuable. This encourages bringing more goods and activities into markets, a process that can affect perceptions of their value. The alternative is to have many assessments of the costs and benefits of new policies that infer prices because there isn't a market. But as we shall see in the third lecture, how reasonable are complex and literally vital estimates of the value of life? Moreover, our general failure to put a price on social infrastructure and social capital can lead to underinvestment in what matters for wellbeing.

(29:01) In standard GDP accounting, government contributes no value added beyond public sector salaries. But what captures performance during the crisis? The pay of the healthcare worker or their heroic efforts throughout? There are two ways to address the gap in these calculations, both of which originated in the 19th century, the utilitarian approach of Jeremy Bentham and the welfarist approach of John Stuart Mill. Bentham defined utility as that property in any object whereby it tends to produce benefit, advantage, pleasure, good or happiness, or to prevent the happening of mischief, pain, evil or unhappiness to the party whose interest is considered. The very idea of happiness needs to be defined, purely hedonic measures of welfare, that is, pleasure and pain, are inadequate. Mill described what Bentham's calculations missed, including a sense of honour and personal dignity, the love of beauty, the passion of the artist, the love of order, of congruity, of consistency in all things, the love of action and the love of ease. Mills' intuition is backed by extensive research into the science of wellbeing which finds that a wide range of determinants of human happiness aren't priced, and these include mental and physical health, human relationships, community, dignity and the general social climate. These can be hard to calculate and, again, efforts to calculate them can be corrosive.

(30:46) And a final point, distribution matters. When there are large benefits for disadvantaged groups, and only small costs for others, a policy may enhance welfare, despite what market values suggest. A Christmas bonus of £1,000 pounds means less to Mark Zuckerberg then £500 does to someone on a minimum wage. Which, as promised, brings me back to the season of goodwill. To many economists all this gift giving is fraught with inefficiencies. Joel Waldfogel has calculated the loss in utility that results from imperfect gifts in kind, rather than efficient gifts in cash, and he attributes the practice of presents over payments to the stigma over cash giving. He calls this the deadweight loss of Christmas, ho, ho, ho. His article, published in the most prestigious economic journal, fails to consider that the stigma against monetary gifts reflects norms worth honouring and encouraging, like attentiveness and thoughtfulness. And it's this juxtaposition of the magi and the merchant that captures much of the story of value thus far. Today, the subjective approach to value has spread widely. Market value is taken to represent intrinsic value, and if a good or activity is not in the market, it is not valued. We're approaching the extremes of commodification as commerce expands deep into the personal and civic realms. The price of everything becomes the value of everything. In the next three lectures I'll explore how these dynamics contributed to a series of crises of credit, COVID and climate and how, by recognising these dynamics, we can build a society that better works for all. Thank you very much.

(32:42) [Audience applauding]

(32:55) Anita Anand: Mark, thank you so much. I mean that was a really very fascinating first lecture. We're going to open this up to our audience in just a moment, but there was just one thing that occurred to me. You talk about values, we've had a referendum here, we've had two elections in America that tell us that values can be completely split down the middle.

(33:15) Dr Carney: I think part of what I'm trying to say is let's start with the values that are necessary for the market to function effectively, but also as we will see when we talk about the financial sector, of responsibility, of fairness within markets, those are the types of values that I do think cut across the broader choices that society makes. And then there is a question, and these are the questions where decisions are made by society about where is the hierarchy of value? So, for example, in the referendum, society is asked the question about sovereignty in the United Kingdom versus the other benefits and costs of being part of the European Union. Society makes that decision. The UK decides to leave the European Union. That is a hierarchy of value. Then the question becomes how do we organise ourselves to be most effective within that decision?

(34:05) Anita Anand: Okay. Well, as you know, we are in extraordinary times here with our virtual audience. So we're going to take a question from Justin Onuekwusi who is a fund manager with Legal & General Investment, based in the city of London. Justin, over to you.

(34:20) Mr Onuekwusi: Thank you. So you mentioned about the rise of the market and the reduction of the state and how it's positive, yet this has been taken to, have led to a rise in inequality and now we're seeing the rise of companies who are less interested in, I'd say, pure profit maximisation, and instead of pursuing profit with a purpose, right, either the environmental, social or governance. So, I suppose going back to your lecture, if the market is a social construct, why has it taken so long for the market to explicitly take into account these social costs?

(34:57) Dr Carney: That's a great question. And it's interesting, originally there was this purpose, we moved into the direction, and I don't want to pin it all on Milton Friedman who was partly the pendulum moving, but we moved into this direction of the primacy of profit. What's happening now, and you would see this, Justin, with I think your own direct work, but also your firms, is bringing that pendulum back and trying to find the right balance between purpose and profit. My sense is we're at a stage where we have companies that in many respects are looking for pursuing purpose, but solving problems for society and, therefore, they will be profitable over the long term. And I would assert that that is absolutely now the case - it didn't necessarily used to be the case - but that is now the case with the move to net zero. If you can help unlock that, you will be profitable. The question is, for some, will they go further, do they actually give up some profit for broader purpose or broader means?

(35:56) Anita Anand: Justin, thank you very much indeed for that question. Former Labour cabinet minister, academic, broadcaster, ballroom dancer, the list goes on, Ed Balls, over to you.

(36:07) Mr Balls: Thank you very much indeed. And I'd like to ask Mark about this difference between financial value and society value, two areas where the market has become more into our lives, there's more families who have two people working, have a lot more about children being looked after in childcare, and if people are living longer, they spend more years in care homes, the reality is that we pay childcare workers and care home workers much, much less. For example, we pay primary schoolteachers or nurses and doctors, is that the failure of the market or the private sector? This happens in the state sector as well, in public nurseries, is it the fault as us as individuals, do we just not pay enough for these services? Isn't the reality, the law says, the rules say, a primary school teacher must have a graduate degree and is paid commensurately. Say, in nursing, in care workers and in early years childcare, the government doesn't do its job, it doesn't set the right social norms and people get badly paid, isn't the answer the government of whatever colour and start making sure the rules of the game reflect what we value and improve the pay of people who look after the oldest people and the youngest people in our society?

(37:27) Dr Carney: Yeah. I mean, it's a fundamental question. Let's say you home schooled or you took care of your parents or relatives, your action there, there would be no value ascribed to it even though tremendous value is transcribed and it, again, shows the limits. But let's take what does happen, which is that these services are increasingly performed in markets. And I think one of the areas that I would draw, and it's been quite clearly shown to us, what we've seen with the crisis for care workers, frontline health workers and for educators is just how valuable they are. This is a challenge we have as society, we value things on the average across, but don't realise what essential means and don't pay for essential, we pay for average, and then that average gets pushed down. And there is a mismatch between the value derived and the value paid. My personal judgement is that that has gone too far, it's too undervalued, and that gap needs to be closed.

(38:33) Anita Anand: If you really want to change things, if you really want people to value the things that are important, as you've described them, isn't it important to have a much more interventionist government?

(38:44) Dr Carney: Well, it's important that society makes clear what it values. So these are choices ultimately governments are following through, the choice, and that these questions are put in clearer ways to society. Do we value education? Do we value recognising - I saw Camilla Cavendish who is an expert on many things, including the aging of society, do we value and do we recognise the pressures that are on our system? And, if so, how do we make choices in terms of how we allocate our resources?

(39:15) Anita Anand: Okay. I mean, you mentioned Camilla Cavendish, she is actually part of our audience today, Columnist for the Financial Times, senior fellow at Harvard and former Director of Policy under David Cameron, the former Prime Minister. Camilla?

Ms Cavendish: So, Mark, you described what you called the tragedies of the horizon, which are the things that go wrong when we put too much value on the present and not enough value on the future. And, of course, one of the examples of that is insufficient action on the climate emergency. And I wondered what you thought democracy should do because, of course, democratic governments have very short electoral cycles, how do you think those governments should be making long term decisions and taking account of the interests of future generations, and do you actually fear, as I sometimes do, that maybe authoritarian regimes have a better chance of reaching net zero?

(40:03) Dr Carney: Well, let me answer it from a democratic perspective, if I may. So part of it is being done, not necessarily fast enough, but has been done, which is to get to the point where we have in the UK, have in Canada, which is to be clear about the objective, in this case net zero by 2050. But then you have to start to fill in, well, what is required in order to get there and to provide some of that information, some of that analysis, in an objective way. So the Climate Transition Commission is an example of something in the UK where you have experts – am I allowed to say experts again, is that allowed? Hopefully. You have experts who look at where we are on that transition and what else needs to be done and whether we're ahead or behind. And they, you know, they clearly say we're still behind. So you provide some element of objective assessment. You can do the same for the carbon price as well. There's an argument that Janet Yellen and I made the other day which was that for carbon pricing, once we decide where we want to go as society, through a democracy, that there's certain technocratic decisions that can be taken that start to move it towards that path. It's easier to be a central banker in a democracy than it is to be a politician in a democracy.

(41:17) Ms Cavendish: I always wonder when we've got a situation where I think societies are now showing that they really do care about climate and the science is overwhelming, I just sometimes wonder if you almost need to take some of this out of the purview of the short term electoral cycle and stop it becoming partisan and political?

(41:36) Dr Carney: I agree. Very clearly defined, take it out and make it accountable that way. Yes.

(41:40) Anita Anand: Okay. Mike has asked, "Is there a country or company today which can show us what a better balance between values and value looks like?"

(41:50) Dr Carney: Well, I think there are a few and Unilever has shown consistently a focus to Justin's question earlier on purpose and accountability around that. I'd also take the example, a similar sector, Danol in France, which has totally re-orientated itself and, in fact, has shifted along that continuum more towards rebalancing purpose and profit. So those would be two. I mean, these are major global companies that would be examples.

(42:15) Anita Anand: Let's hear from somebody who was - figured large in a government that you've served as the governor of the Bank of England during his time, George Osborne, former conservative chancellor from 2010 to 2016, now editor-in-chief of the Evening Standard.

(42:29) Mr Osborne: Thanks, Mark, that was a great lecture. We know the value of money, a pound equals a pound, in fact, partly due to the effectiveness of central banking in recent decades, but values are under attack, institutions are under attack, the institutions that Adam Smith would have valued are now criticised. And so how do you achieve that consensus that I think is implicit in what you're saying about how we need to approach these different crises and the kind of way we regulate markets and don't we end up with money being effective because it is the lowest common denominator that everyone can agree upon?

(43:05) Dr Carney: Good to see you, George. Certainly money is a means to an end in helping to move us forward, absolutely right, but the question of the range of values that we're putting weight on, so fairness, responsibility. I mean, part of our crisis in values has been perceptions and realities around fairness. We have issues in the COVID crisis about is there one rule for one set and another for another set? We have issues in terms of fairness of opportunity which come up through education and other things. And so a real emphasis in terms of value - and I - maybe it's a slightly unfashionable word, but solidarity, as a value that goes alongside fairness, and more of an emphasis on that and less of an emphasis, to go to the previous question, which is about trickling down ultimately through monetary efforts and making that explicit, I think that's part of the challenge we face with a range of things that governments need to do.

(43:59) Anita Anand: So much easier to be a central banker than a politician?

(44:03) Dr Carney: It is much easier to be a central banker than a politician. I know that, I know that. But it wasn't that easy, as George knows.

(44:12) Mr Osborne: It's true.

(44:12) Anita Anand: Thank you very much, George Osborne. We've got another question from a member of our virtual audience. Chandra would like to know, "What do you think has been lost by the wholesale repudiation of socialism in the late 20th century? What lessons could we still learn for the 21st century from what was observed in the industrial revolution that inspired some of the earliest socialists?"

(44:35) Dr Carney: I'm not sure that the more recent repudiation of elements of socialism, at least from my perspective, that we've lost a great deal from that, I think in the ideals of socialism, in the - certainly in that period the response to the industrial revolution, and I think one of the challenges we have, if we step back from the COVID crisis, the climate crisis, the aftermath of the credit crisis, is something that's very positive, but could also be as challenging, which is, to use the nomenclature, the fourth industrial revolution, this technological revolution which really is starting and has been accelerated by the COVID crisis. So artificial intelligence, e-learning, e-Reith lectures, et cetera, and how are we going to channel those technologies in a way that benefits most of society very quickly because the history of previous industrial revolutions is it takes a very long period of time, last point which that needs, it goes back to the need to think about the values we have as society and that sense of solidarity so that we move more quickly and deliberately so that all benefit.

(45:44) Anita Anand: You've mentioned that your thinking about values stemmed from reading Mariana Mazzucato.

(45:50) Dr Carney: Yes.

(45:50) Anita Anand: And I'm delighted to say that Professor Mariana Mazzucato is with us, so a professor of economics, of innovation and public value at the University College London. Welcome, Professor.

(46:00) Professor Mazzucato: Thank you, Mark, for your amazing lecture and of course for the name check. So you talk about the problem of confusing price with value, and you're absolutely right that this is just so stark today, where care, you know, care workers who we clap on our doorsteps are actually not considered valuable in terms of the accounting mechanisms and that’s very much a tautology, right? They are paid little so we don’t value them, we don’t value them so they’re paid little. But another problem, and this is my key question to you, is we actually end up confusing rents with profits, and this is a really tricky one and I’m quite curious that you didn’t actually use the word, ‘rent’. I think you used it once when-----

(46:35) Dr Carney: Yeah.

(46:35) Professor Mazzucato: -----you were talking about profits, rents and wages, but, you know, where does that fit in terms of your own analysis because Adam Smith what he actually meant by the free market was probably one of the most, you know, confused words ever, he did not mean, free from the state, he actually meant, free from rent.

(46:50) Dr Carney: Yeah.

(46:52) Professor Mazzucato: And here, you know, I mean, a key problem, as he said, is that just because an activity earns a price, it’s been included in GDP, regardless of what it’s doing. And so if you look at the financial sector, for example, a hedge fund or a private equity firm or a financial institution like a public bank that is actually helping to finance innovation, the real economy or public or private venture capital fund, they’re all actually treated the same in terms of what they’re doing, all that actually matters is the-----

(47:15) Dr Carney: Yeah.

(47:16) Professor Mazzucato: -----income that’s being earned and that’s what goes into GDP. So, you know, a lot of people have actually been thinking about the GDP problem and value, and you mentioned Sandel and there’s others, and they also talk about in terms of wellbeing, that we actually have to put happiness and wellbeing at the fore, but very few have been, you know, going to the core of what it means then in GDP to get rid of the rent. And as you, you know, were the Bank of England governor I’m just wondering can you just comment a bit on this, specifically around the financial sector and what we can do within that to distinguish rents from profits?

(47:45) Dr Carney: Okay, well, I think this is an incredibly important point. You need a value theory to think about how we’re going to channel those opportunities and what is valuable from that and how do we - how we account for things matters to how - where our priorities are, which is part of Mariana’s - you’ve made many points in your question, but that’s part of it, and particularly at these times. Normally when you have big shifts, shifts from the agricultural age, which was the physiocrats, to the age of trade, which were the mercantilists, and from the mercantilists to the age of commerce, which is the classicists and on and on and on, is you have different perceptions of value. So if you just rely on what is priced in the market, you miss what is productive and which has these longer, longer term effects. Last point, this is part of what I’m trying to say around the flattening of values, which is once you take everything into the price, then they can be equated. So the hedge fund that makes X in pounds is compared to the care workers as an industry, who potentially make less, and as if that is a value calculation. And that is part of the challenge where you have to look - and I said that was the last point, this is my last, last point because Mariana also said - she rightly points out wellbeing, and I think one of the challenges we have is it’s not necessarily right to take issues of wellbeing and put a market price on them in order to make these judgements, and these are the fine issues that Mariana, Diane Coyle and others are thinking about in terms of what goes into GDP and other accounting mechanisms.

(49:17) Anita Anand: Mariana, thank you very much indeed for your question. We have the sculptor, Antony Gormley, with us, creator of course of the Angel of the North and many other fabulous sculptures. Antony, your question?

(49:27) Mr Gormley: It seems to me that capitalism is completely unable to curb its addiction to endless growth or to find an effective, quick or serious response to the climate crisis, and I'm just wondering if you ever lie awake in your bed at night and think is there another system other than liberal, capital, free economy that we could be working with that would actually do what you're talking about which is re-balance the relationship between broad human purpose and profit?

(50:09) Dr Carney: Well, I think there is two aspects. First is the simple aspect, if you will, which is hard anyways, but simple, which is improving the functioning of markets in a way that moves the motivation of the individual in the market, not just about a sense of self, but a sense of responsibility for the system. So one of the things we did, and it's a microcosm point, which is post-financial crisis, is we made the senior managers of all institutions responsible, believe this, heaven forbid, actually responsible for the people who work for them, to make sure they were trained or that they managed risks, and if they didn't and they did things that undercut the value of the system that they would lose their bonuses and other - this is what motivates them. So that is not the alpha to mega answer to the question, but it is a way to begin to inject a sense of responsibility for the system for individuals. The bigger point, though, the bigger point is to organise the market in pursuit of what society values and that what society values is not going to be priced, but once it's clear what society values, and you have a political system and a dialogue and a broader sense of that, then the market will start to put a price on it, but price in pursuit of purpose, to go back to Justin's point at the start. And so what I think is possible, and I know you've dedicated a substantial proportion of your life to try to move this along, what is possible, but not assured is that with climate we are getting towards that point which it's very clear what society wants and then we can organise the market in pursuit of that.

(51:47) Anita Anand: I know we've – yeah.

(51:48) Dr Carney: And that is the trick.

(51:49) Anita Anand: We have a climate-----

(51:50) Dr Carney: Yeah.

(51:52) Anita Anand -----lecture to look forward to. Thank you very much, Antony Gormley, for your question. I mean, since Antony Gormley brought it up and wants to know what keeps you awake at night, can I also ask when you were governor of the Bank of England you spoke out about the dangers of Brexit to the UK economy.

(52:05) Dr Carney: Mmm.

(52:07) Anita Anand: Do you stay awake at night now thinking I should have done more, I should have said more?

(52:12) Dr Carney: No, because I think what our responsibility was to make sure the system was prepared for whatever society decided. We had to move hundreds of billions of pounds in order for that to be the case. The system worked together and that was the bit of the economy that was ready so, you know, I'd lay awake at night trying to make sure that it was ready for that. But by the way, one of the values is responsibility and accountability and you can't, as an unelected official, move hundreds of billions of pounds and not explain why you're doing it.

(52:44) Anita Anand: Helen is wanting to ask a question. Helen?

(52:48) Helen: I was interested, I heard the discussion about understanding the value of the essential and then paying only for the average, but what about expanding that to unpaid labour, you know, what kind of price can we put on childcare and the other elements of domestic life which are overwhelmingly performed by women?

(53:06) Dr Carney: Yeah.

(53:06) Helen: I know Mark mentioned the sort of value of the unfelled tree in the rainforest and I'm uncomfortable referring to a woman as such, but I mean can a comparison be made? I'm particularly interested in his thoughts on this, given in the current environment it's women who are being hit hardest by the kind of changes we've seen in the last year. Thanks very much.

(53:25) Anita Anand: Thank you very much, Helen. Briefly, if you would.

(53:25) Dr Carney: Yeah. Okay. Well this big issue that Helen is raising it's absolutely correct and it's part of the reason, Helen, why I did bring it up with Ed Balls is that there are, you know, these huge services that are performed and they're performed out of love, out of responsibility, but there's not the value that's subscribed to them. And, actually, in some cases we have our tax system and other systems organised that penalises this type of behaviour, and at a minimum that has to be stripped out of the system very consciously. It actually had been a big issue in Canada and had been addressed in the last few years to ensure that those decisions are made in a way that is consistent with financial value. What Helen just said about the distribution, the impacts of the COVID crisis disproportionately on women, disproportionately on a series of already disadvantaged groups in our society and regions, is fundamental to how we respond going forward.

(54:24) Anita Anand: Thank you. We have time for one more question.

(54:26) Dr Carney: Okay.

(54:27) Anita Anand: Lets go over to Professor Michael Minelli for this, a scientist financier, and one of the claims to fame for Michael Minelli, I know, is that he created the world's first commercial digital map. Welcome to you, Michael.

(54:41) Professor Minelli: Thank you. Money can be defined as a technology communities use to exchange value across space and time and a lot of market price absurdities highlight community value clashes, taxpayers versus art lovers, fisher folk versus environmentalists, currency traders versus tourists, yet supposedly communities change their values slowly. Could you please share your thoughts on why market value is important for long term decisions, such as carbon prices, seem to fluctuate so wildly and swiftly today and whether these fluctuations are for good or ill, giving us better decision making information or just misdirecting us to focus on the short term?

(55:22) Dr Carney: That’s a fantastic, absolutely fantastic question. The economist in me will tell you that it’s rationally discounting all the available information and there’s all of a sudden a marginal bit of new information that comes in, market reacts, such as, you know, progress on a vaccine, being actual material information - but these swings are too big, they’re too frequent. That goes to the limits of relying on the market, particularly as the policymaker. So a general orientation, yes, but the market always right, no. And that brings in these questions about when the market is in conflict, your fishers and the environment, for example, in conflict is some guidance and some judgement and bringing the values in the market back in line with the values of society, which are the toughest judgements to make.

(56:08) Anita Anand: Michael, thank you very much indeed for the question. That is, unfortunately, all that we have time for. Next time Mark is going to be looking back at the drama of the 2008 financial crash, examining why it happened and asking how we might prevent a new systematic financial meltdown. But, for now, our thanks to all of our guests, our audience and, of course, to our Reith lecturer for 2020, Dr Mark Carney.

(56:33) [Audience applauding]

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