

Book Review – Andrew Henley

The Social Licence for Financial Markets

By David Rouch

Palgrave Macmillan, 2020 xxv+362pp, paperback, £18.99, ISBN 10-3030402-193

This book is by a prominent and highly experienced City of London financial services lawyer. Its title is taken from a phrase introduced by former Governor of the Bank of England, Mark Carney, in his Mansion House speech in 2015.

The idea of ‘social licence’ might seem a strange one. At first glance it seems to mean society’s requirement to ensure that the financial services sector is adequately and appropriately regulated. Faith in Business readers need no introduction to how the 2008 global financial crisis increased the salience of this topic.

However, as Rouch explains in this very thorough and detailed book, there is more at stake. The financial services industry operates (or at least ought to operate) ‘under licence’ from wider society in order to deliver services for the wider benefit of that society. We should perhaps focus on the word “services” rather than “financial”. This raises fundamental questions about the nature of money, investment, insurance and the provision of finance. Although this is never made explicit in the book, the principle that money should be a tool for social good, rather than an end in itself, resonates loud and clear with Jesus’ own teaching.

The early part of the book delves into these questions in some detail. The nature of the debate and the arguments here will be well-known to readers who are familiar with, for example, Eve Poole’s *Capitalism’s Toxic Assumptions*. Is money a tool or an end in itself? Should the maximisation of shareholder value

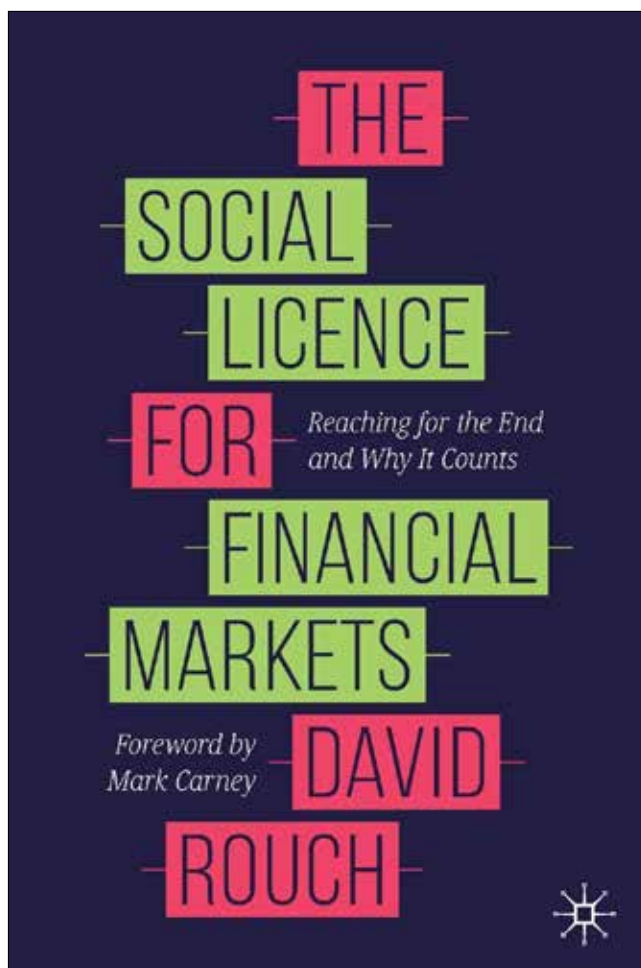
be the sole purpose of business? What is the ultimate aim of market-based capitalism as an economic system? Rouch’s consideration of these issues spans a wide range of ideas: behavioural economics, where psychological insights into human behaviour are

and mutuality, where reciprocal arrangements are made between society and financial services for mutual benefit.

Readers are rewarded for their patience in working through this material by arriving at the core of the book in chapter 4. This unpacks the notion of

‘social licence’ in detail. Do financial markets operate with the permission of the communities in which they are situated? Vast areas of modern economies could not function without the provision of financial services. At the macro-economic level banking systems exist to match investment opportunities with the needs of citizens to save to meet future consumption needs. Insurance products exist to allow individuals and organisations to diversify risks which could otherwise be catastrophic. Rouch explores in detail the nature of this ‘social licence’, how it is articulated in a democratic society and how it is granted to financial markets. Rouch argues that the terms of the social licence extend beyond the regulatory and legal requirement for market participants to operate

within the letter of the law. What should those terms be? Can we identify the expectations of society with any authority? What are the underlying values within the economic activity that financial markets facilitate? These are big questions, and the latter part of



applied to explain economic decision-making; evolutionary ethics, where altruistic behaviour emerges as a result of evolution; the nature of the firm as a legal ‘fiction’, where the firm is treated in law as a single individual; and considerations of reciprocity



Mark Carney:
The Social Licence


Photo: Channel 4

the book explores them in some depth. Rouch addresses questions about the relationship between freedom, market participation and membership of society. A subsequent chapter looks in detail at how formal financial market standards can express and realise ideas about justice.

Ultimately Rouch argues that financial market policy must extend beyond the regulation of market participation and behaviour. It needs to connect regulation with the terms of the social licence: to clarify the purpose of financial firms, to improve financial reporting and accountability, and (interestingly) to apply principles of restorative justice when things go wrong. There is much here to be commended. Finally, a postscript brings the debate into the present by exploring the nature of the social licence in the context of Covid-19.

For Christians it is straightforward that the financial market, just as much as any other market, should operate under social licence. Markets can never function in a morally neutral fashion, because the behaviour of buyers and sellers (or the behaviour of algorithms programmed to work on their behalf) always reflects ethical standards. While some may speculate that those ethics will emerge from an evolutionary biological process, Christians will assert a different source. And many Christians will agree with Rouch in his conclusion that disaster will ensue if we imagine ourselves to be insulated from social and environmental damage while ‘financial markets keep on giving’. This disaster will not only have a social and environmental dimension, but a moral one as well. Biblical narrative enshrines the principle that societies court disaster

if they stray from true worship. We need therefore to support and pray for people of faith at the heart of our banking and financial system.

This is a substantial exploration of an important subject. It covers a huge area of ground, and the level of referencing of sources is impressive. Each chapter begins with a summary overview, and many readers might find these at least as valuable as the full-length exposition of the argument. This perhaps begs the question, whether the idea of social licence would find a wider audience if it were summarised more concisely for a practitioner audience. However, for the patient reader with time for reflection there is considerable reward in working through this important topic, and in so doing reflecting on how social licence can support the common good. 



Andrew Henley is Professor of Entrepreneurship and Economics at Cardiff Business School, Cardiff University. Over 35 years he has written and published extensively on the economics of labour markets, small business growth and entrepreneurship and regional development issues. He has worked extensively with business owners and served as a policy advisor. He is a Fellow of the Learned Society of Wales.