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Hello, I'm Hazel Henderson. And welcome to Ethical Markets. I'm introducing our second TV series on *Transforming Finance*, building on conclusions in our first series that global finance is becoming an unsustainable bubble. Finance is a global casino that still needs taming and downsizing. We declared that finance is part of our global commons and must serve people, not exploit them, their communities, or the earth's resources. In this series, we're examining solutions, new developments, financial reforms, and the transition to healthier, cleaner, equitable human development on our planet.

Today, I'm thrilled that my guest is Amy Domini. And she is kind of the guru of socially responsible investing. And her path-breaking book, *Ethical Investing*, came out in 1986. And then, the next book, which was another blockbuster, was *Socially Responsible Investing*, which came out in 2001. Amy, welcome, and thank you so much for joining us.

Well, and thank you. Thank you.

So let's start by-- you tell us how you got involved in this so early in the game, where you were laying down a path for so many of us.

Yeah, it was interesting. I started in the financial career as a stockbroker, which meant a financial advisor to people, as opposed to pension funds or endowments. And I kept running across people who would say, are you kidding? A tobacco company? I'm not going to invest in a tobacco company, or something like that.

I thought, well, gee, I better learn about that. And I'd better ask people, before I make a mistake, is there a line they don't want to cross? Virtually everybody had one.

So I thought, well, holy cow, if virtually everybody has ethical considerations when they're making investments, why is nothing written about this? And I searched and searched, and couldn't find anything, and thought, well, obviously the world needs this book. And so I started teaching it.

But at that time, I really felt that this was a personal ethical decision. It was driven by that. Through time, and particularly because there was an investment program going on to really highlight South Africa and to really make it clear that that was not a country that was following a policy we wanted to follow-- one of slavery, essentially-- I began to see this as something bigger than a personal decision. I began to see it as a means of finance using its voice to make a better world.

Yes, it was-- this was just at the same time that I joined the advisory council at the Calvert Group. And there, every single meeting we had, we were talking about apartheid and how we could help, using finance, to take down that terrible regime.

That's right.

Yes.

Well, what most people forget is-- and you'd probably have figures better than I-- the global GDP is on the scale of \$40 to \$45 trillion. CIA Factbook says \$45 trillion. And derivatives, last year, on the International Bank for Settlement, settled about \$700 trillion worth.

It's insane.

So that's just derivatives.

It's insane.

So finance is a very big force. It's many times larger than our actual trade.

Yes, exactly, and one of the things that my partner, Alan Kay, and I have done over the years is promote a financial transaction tax of way below 1%. And we know lots of currency traders who say, oh, yeah, it wouldn't make any difference to me. And we took this proposal to the UN social summit in Copenhagen in 1995.

And of course, the World Bank was furious. And the IMF was furious. And so Alan and I decided, OK-- oh, that's right. They were saying, oh, you couldn't collect it.

And you know what they always threaten. Oh, well, if you did that, well, we would move our trading to some-- the Cayman Islands, or into the cloud, or whatever. And then, they said, and you could never collect this because it would be too complicated. So Alan and I wrote a program for how it could be collected, which is really, really easy.

I'm sure.

So we go back a long way with this issue. And what's nice now is that, just in 2011, the European Union has come out for it.

That's right.

It was on the agenda at the G20.

That's right.

And so what I always love to do, Amy, is call it the "Larry Summers tax," because Larry Summers wrote a paper in 1989 with his first wife, I guess, Victoria Summers, proposing it. And so we see how long it takes.

Well, yes, that's right. And there's a lot of theory about how long these things take. And it's very discouraging. We all want something to be quick and get traction like that. But actually, we've been at this, you and I, for, I'm sorry to say, 30-odd years.

Right.

But now, I do believe that this Occupy Wall Street introduces a very interesting new--

Mm, yeah.

Because now, they've brought this conversation about Wall Street isn't working for we, the 99%. And it's a very simple message, just like the Tea Party-- "No new taxes." Wall Street isn't working for me. That's simple. People understand that.

And I think it's possibly an indication of a shift on the part of the public and the world public-- it's a global phenomenon-- that we need to have a financial system that protects the planet and the people on

the planet.

Yes, I mean, what's the purpose of finance if it isn't for people?

Exactly.

I mean, that was the whole purpose of finance was to serve Main Street, to serve the people. And instead, it's kind of turned into our master.

That's exactly correct in every way. In legal ways, it's gotten greater and greater protections for finance. And on the fiduciary aspect, now, all of a sudden, we're supposed to protect the money, not the people. We're held to fiduciary standards of making money, no matter how many people it kills.

Now, that's simplistic. Obviously, there are laws against killing people. But I can sight you many, many examples where corporations have knowingly introduced dangerous products-- start with tobacco-- and allowed people to die in order to make a profit. So don't tell me that they're worried about people.

No, and this gets to the whole thing of scale. And as you may know, E.F. Schumacher, who wrote the book *Small is Beautiful*, was a dear friend of mine. And he wrote the forward to my first book. And so the whole scale thing is also to do with ethics because, somehow or other, when you start blowing things up to the global level, and it's all abstracted, and countries become, quote, "geographies," and it's a black box, and all you look at is GDP number coming out the top, I mean, flying over the country at 60,000 feet, that is what introduces, I think, the temptations for unethical behavior. The causation is so muddled up.

Well, you've been one of the leaders on the alternative to GDP. And that is an important global-- and now getting, again, a lot of traction.

Yes, finally.

And just to remind people in the audience that the issue there is that if you are, let's say, staying at home, taking care of the children, you are not contributing to any financial system. And you are not making better GDP. You get a divorce and need to spend money on a babysitter full time, and lawyers for the divorce, and you're contributing to GDP. It's an inverse.

Of the reality.

An inverse indicator of the wellness of a nation.

It's so sick. I mean, I just did an editorial a few months ago on how the fallacies of GDP end up mispricing sovereign bonds. And if you look at the way all of the bettors, with their credit default swaps-- are we going to push Greece over the edge? Are we going to push Ireland over the edge? And part of that is driven by that GDP growth valuation.

That's right.

And I keep on saying, if you looked at the fundamentals in Greece, in Ireland, you would see that they have well-educated workforces.

Exactly.

They have efficient infrastructure, much more efficient than ours.

That's right.

And you have productive ecosystems all off the books, all valued at zero.

Mm-hm.

And the only thing that counts is the money transactions.

And you put a point on something that I'd like to underscore. It is these bond bettors that are really pushing countries over the edge in order to benefit from them.

Terrible.

They see an advantage. Portugal's an example that's considered one of the weaker-- on what matrix was Portugal weaker?

Yes.

The only thing that made it weaker was people started betting against the bonds.

That's exactly right. It's terrible.

And that is evil.

Yes.

That is just pushing a country over the edge, bringing the entire planet to financial disruption for a profit.

And did you notice that a few-- this was sometime in November 2011 that the EU, now, has banned naked credit default swaps. And they came right out. And I heard the head of the Kansas City Fed saying-- I never thought I'd hear a Fed chairman say anything like that. He said that naked credit default swaps should be banned, or they should be put on local gaming commissions. But they're nothing to do with finance.

Absolutely right. And that kind of a conversation, there were two reasons it didn't take place. One was everybody bought into this idea of jobs. Somehow jobs were at stake, and not worrying about all the jobs Wall Street was killing, only worrying about the jobs Wall Street was creating.

Another one, though, I think is much subtler. Society in America became very conservative. And I mean that in a more old-fashioned way. They were afraid of looking weak. They had this not wanting to touch the soft issues thing going on.

Now, I think, again, going back to Occupy Wall Street and some of the more vocal things on it, it's OK to say Wall Street's out of line. Wall Street's not functioning, whereas three, four years ago, the Federal Reserve would've sounded like some crazy person to-- like you and me.

[LAUGHTER]

Let's stay they crazy, Amy.

Yes, it's like, what is the reality of the situation? And we've had this kabuki theater in Washington.

Yeah.

I mean, this whole thing-- that debt debate, that deficit and debt debate was an absolute outrage.

Absolutely.

Oh, unbelievably ridiculous. So let's move now to what should we be doing going forward? Now, how do you see the future of the socially responsible investing movement? And how can we take that wonderful new energy from the Occupy movement? I've just done a forward to a book called *Occupy World Street*.

Oh, good.

And it's written by an old friend of mine who is a currency trader.

Good, good, she should be very knowledgeable.

Yeah. So how do you see it going forward?

Yeah, so to just state the case, for those that don't know, socially responsible investing is most commonly called-- embodies three concepts. One is you build an infrastructure of full-cost accounting. And you try to stick to selecting stocks that, when you look at them on a full-cost accounting basis, are more reasonable.

Right now, we leave off things you've been talking about-- the environment, harm to people. We bring those back in. And we hope that will lead to legalizing that way of looking at companies and making that mandated.

Second is we're active shareholders. So we'll file, with the company, a request for information on what they do about their wastewater treatment, or that kind of thing, how they source in sweatshops. The third thing that we do is we support community development, financial institutions. Move Your Money is a campaign we've been on for 15 years. All of us commit to moving money to these community development financial institutions.

Great.

What I see in the future is that these three concepts gain in legitimacy and in usage. And the first thing, let's look at this. I look through my lens at two companies in the same business. One has five product safety recalls. One has none.

One has a non-diverse board of directors. The other has diversity of several types on the board of directors. One has under-average match on the 401(k). The other still has a defined benefit plan.

I'm learning a lot about those two companies. One has an ahead-of-the-curve management that sees problems before they happen. I've argued for 20 years, why would you not use that information?

Quality of management is the hardest piece of information to get as an analyst. That's happening now. Now, you're seeing major securities firms take in those kinds of criteria.

And UBS is one that uses these environmental, social, and governance criteria in all their stock selections. Bloomberg has put it on the box now so that anybody can access it. So this, what we call, mainstreaming and gaining legitimacy, I see as really coming about pretty quickly, maybe over the next

five years or so.

Gosh, that's such a great thought. Now, one of the bottlenecks that I have noticed, and that we've been trying to work on at Ethical Markets, is the need to retrain asset managers at institutions.

Yeah.

There's a book came out a couple of years ago called *Up from Wall Street*. And Richard Trumka of the AFL-CIO did the forward to it. And it was so fun because what it was was kind of a handbook for trustees-- and of course, for union, pension funds-- of how to face down your portfolio manager, because you know how often we experience-- you go to you portfolio manager. And you say, now here's really a nifty little solar energy company that I would love you to put some of my money into.

And the asset manager will say, well, you don't understand risk. And that's really incredibly risky. And so I'll say, well, my god, you've got your money in commodity ETFs, interest rate futures, dark pools, hedge funds. Don't you think that's more risky than a real solid little company where you can go and kick the tires? Well, no, you see, we learned at the Harvard Business School that it was blah, blah, blah, blah.

Exactly. I blame the Harvard Business School for a great deal.

Oh, my--

And I think what you're putting your finger on-- I had a conversation with a man in finance some years ago. And he said, you've got to understand, I went to the Harvard Business School. And I know what my job is. I am looking for an "economic torpedo"-- that's the phrase he used--

Oh, my god.

--when I select an asset manager. An "economic torpedo."

Oh, isn't that terrible.

Kind of a negative concept, isn't it?

That is-- this is all boy stuff.

That's exactly right.

We all know that traders have elevated testosterone. Did you see that study that was done--

Yeah, I did not.

--at the Canary Wharf? They went, and they looked at these traders in the city of London. And they did cheek swabs. And they found they all have elevated testosterone. And you know Michael Lewis, who did the *Liar's Poker*?

Yep.

And he has another new book now called *The Big Short*. And he said, the other day that, basically, these guys, when they're in this high testosterone state, take risks, take incredible risks. And they're absolutely sure that they're OK. And he said, bottom line is leave the investing to the women.

Well, I do think that one reason that I found an appeal in my field, in responsible investing, was it just seemed, intuitively, that the corporate culture, the kind of personality of what you were investing in, would matter a great deal in the success of the investment.

Absolutely.

I don't know that the Wall Street wizards, by and large, understand that. They have a-- they want a formula that they can follow.

Oh, yes, they're in love with algorithms, and mathematics, and all of that abstraction.

That's right. But if we can bring the kind of algorithms to play-- and I use hard-core numbers. I don't use--

Of course, yeah.

I have yes/no answers to my questions. How many products were recalled last year? Pretty easy to find out, pretty cut and dry.

Mm-hm.

And if we can integrate that into the thinking of that gang, then we've really got a very powerful tool for change brought in along our goals. And remember, when you do that, you're looking at issues that will lead to a better chance for universal human dignity and a better chance for ecological sustainability. Right now, Wall Street is still extracting value.

It really is.

Yeah.

Yes, I agree with you. Yeah, so that-- one of the things that we're kind of pushing-- and I used to teach at a business school in Brazil.

Shame.

And I'm pushing it in with this business school, which is streets ahead of Harvard, I have to tell you. And basically, to set up courses for retraining asset managers to get over all of the, quote, "efficient market theory," and rational actors, and all of this, and get real with all of the behavioral sciences. We understand that the real model is herd behavior, monkey see, monkey do.

Yeah.

And so how do you get them trained in ESG, Environmental, Social, and Governance, and to move to this sort of thing? And I think, if you have enough courses that are credible-- there's one in Australia right now.

Yes.

Our company is a member of UN PRI. And this is called Responsible Investor Academy. It's just beginning. And we have one in Brazil. So that then they can't-- if a trustee says, OK, I want you to take environmental, social, and governance issues into your decisions, and blah, blah, blah, and if they say no, you're fired?

Mm-hm. Well, don't you think it's--

Is that too tough?

No, I don't think-- are you kidding? You know who you're talking to.

[LAUGHTER]

But isn't it interesting that it's not the United States?

Oh, yeah.

And I think that one of the things that most Americans fail to understand is the leadership position we have lost.

We have lost.

And we used to matter. Our Supreme Court decisions used to set the groundwork for Supreme Court decisions everywhere. They no longer do.

Oh, yeah.

They're no longer considered precedent globally.

Now, we have Citizens United.

Well, it's not-- but what's interesting is we have lost credibility to the point where people don't really care how we do it anymore.

No, I mean, isn't it--

And in Brazil, Brazil is so empowered now, through their left-leaning government's wild success--

Yes, oh, yes.

--in bringing that country way up along the scale economically, and in equalizing incomes, and in safety on the streets.

Mm-hm.

And now, people are looking to Brazil for leadership.

You know, it's--

They're looking to South Africa for leadership.

Yes, it's amazing. You know, our best affiliate is in Brazil. It's in Sao Paulo, Mercado Etico.

And we love it that the tail is wagging the dog. They're about three times bigger than we are. And they do their own programs. And I'm on the board of Instituto Ethos there, which is about 37% of GDP. These are all little, mostly privately held companies, because nobody-- there was really-- you couldn't borrow from banks at 19%--

That's right.

--interest. You know, my god. And so they have developed their own criteria.

And so our license to our affiliates in other countries says that, OK, you have to use the screening, the best screening for social, environmental, and ethical standards. And we withdraw the license if they go astray in terms of what companies they showcase and all of this. So, yeah, you're right. That's what I'm seeing is-- the same with the Chinese.

That's right. Now, I spoke in China last year. And it's the four-day expert. I was there for four days.

But I found it incredibly interesting how rapidly they were embracing some forms of capitalism and how big a voice the state had in everything. But I was very fortunate because the state actually wanted to support corporate social responsibility.

Yes.

So the state newspaper put my photo and information about responsible investing on the front page, above the fold--

Great.

--talking about this thing. Now, you can say what you will about how meaningful it is. But again, it wasn't the United States. I've never been above the fold in the *New York Times*.

Well, I've been going to China since 1986. And it's real. It is actually real.

It's kind of below the surface. But they don't want totally wild capitalism. They know that it's very, very costly if you have to go back and clean up your air, and water, and all that. And right now--

The run system.

Yeah. I mean, right now, they had the green GDP. And it was the local chieftains in the provinces that were still measured by success by the old GDP growth formula. And so now, there's a new effort in the new five-year plan--

Oh, interesting.

--that they are going to go back to the green GDP.

Isn't that great.

So and then you look at what's happening in London-- that group that put out "Pricking the Carbon Bubble," where they realized that, my gosh, all these stranded assets, they've invested far too much money in fossil fuel deposits that can never be burned.

Right.

And my god, you know? And so I think that we really passed a tipping point now. But as you say, unfortunately, it's not coming from our beloved country.

Well, Amy, I can't believe it. We're at the end of this.

Time flies.

Thank you so much.

Well, thanks for having me.

Keep up the tremendously good work.

Right.

And again, thanks for joining us. And we hope you'll stay with us for the rest of this series. I'm Hazel Henderson.

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