perspectives

ISSUE 2 WINTER 2013/14

A **nef consulting** publication

nef consulting

The Value of Money

Challenging the preconceptions

Money Isn't Everything
Julian Baggini and *Ian Hadden* examine the usefulness, or otherwise, of using money as a measurement of success.

New Values, New Money
Leander Bindewald and *Rupert Widdicombe* look at the role of new kinds of money in representing what we value.

We're Only Human When It Comes to Money
Ian Hadden, with *Professor Dan Ariely*, writes about our tendency towards irrationality in our decisions about money.

The Art of Public Funding
Jonathan Schifferes looks at the relationship between money and culture.

INTERVIEW

Daniel Fujiwara

What value well-being?

A new way of valuing human intangibles based on well-being is gaining currency, as Daniel Fujiwara explains to Rupert Widdicombe.

Perspectives

nef consulting
3 Jonathan Street
London
SE11 5NH
T: +44 (0) 207 820 6361
E: enquiries@nef-consulting.co.uk
www.nef-consulting.co.uk
@nefconsulting

Contacts
Graham Randles, Managing Director,
nef consulting
Tel: 020 7820 6374
graham.randles@nef-consulting.co.uk

Mary-Louise Nash, Marketing and Communications Manager,
nef consulting (editor of Perspectives)
Tel: 020 7820 6352
mary-louise.nash@nef-consulting.co.uk

nef consulting is a social enterprise founded and owned by **nef** (new economics foundation) to help public, private and third sector organisations put its ideas into action.

We are experts in **Social Return On Investment (SROI) analysis** and using well-being measurement in impact assessment. We integrate social valuation into the realm of cost-benefit analysis and economic evaluation.

nef consulting provides analysis, training and strategic advice to public, private and third sector organisations so they can develop better outcomes metrics. The impact of our work extends to helping commissioners and government departments understand value-for-money of their spending.

Contents

Contributors

(see articles for more information)

Dan Ariely
Dan Ariely is Professor of Psychology and Behavioral Economics at Duke University in the USA. He is author of *Predictably Irrational, The Upside of Irrationality*, and *The (Honest) Truth About Dishonesty.*

Julian Baggini
Julian Baggini is a writer and philosophy PhD whose books include *The Ego Trick* and *The Shrink and the Sage: A Guide to Living*, co-written with psychotherapist Antonia Macaro.

Leander Bindewald
Leander manages the INTERREG IVB funded EU partnership Community Currencies in Action (CCIA) at **nef**.

Daniel Fujiwara
Daniel Fujiwara is a consultant in economics and econometric analysis and a researcher at the London School of Economics and Political Science (LSE). He was previously senior economist at the Cabinet Office and is author of the Treasury Green Book on valuation techniques.

Ian Hadden
Ian works with organisations to help them define and deliver long-term change and is also a photographer and writer.

Jonathan Schifferes
Jonathan is a Senior Researcher at the RSA's Action Research Centre and previously worked for **nef consulting**.

Olivier Vardakoulias
Olivier is an economist at **nef consulting** working on the refinement and improvement of measurement methodologies and modelling tools.

Rupert Widdicombe
Rupert's articles have been published in *The Guardian, Sunday Times, The Economist* and other UK and international titles.

perspe

Welcome to the second issue of **perspectives**, the magazine from **nef consulting**

At **nef consulting** we engage in issues and questions of value on a daily basis. We find that, in almost every case, the subject of money is not far behind. Does value always have to be connected with money? Of course not. Many, if not most, of the things we truly value in life are free. We don't put a price on our families and personal relationships, on love and friendship, on our enjoyment of the outside world, or even on relaxing and doing nothing. We regard these things as priceless.

Conversely the term 'value' has somehow come to be associated in the public consciousness with 'cheap' – in shops and supermarkets and on the television and Internet, we are bombarded with advertising that tells us that this or that product is good value, best value or two-for-one value. Through these promotions, which almost always emphasise we are buying the same for less, we are conditioned into thinking that good value is the same as cheap.

While we may be losing sight of the true meaning of the term 'value', surely we have no such problem with our understanding of money? Once again, it is not clear. We may understand money in its transactional sense as a means of exchange but, as explored in the article *New Values, New Currencies*, money is much more than the coins and notes in our pockets and purses. It has meaning, and that meaning is linked to our social values.

The range of articles in this issue of **Perspectives** highlights the many nuances of our relationships with the concepts of money and value. It shines a light on the various contradictions inherent in these relationships. Is money one of humankind's greatest inventions, on a par with the wheel and the steam engine or is it an outdated concept desperately in need of an upgrade? Or both, as these articles suggest?

Another contradiction: given the confusion between the concepts of money and value, why are we so keen to put a value on the social impacts of organisations, as suggested in the article *What Value Well*-Being? In this interview, Professor Daniel Fujiwara talks about the rapidly evolving field of impact measurement that includes tools and techniques such as Social Return on Investment analysis. This is really the other side of the same coin. When positive social benefits and negative environmental impacts are typically regarded as externalities in conventional economic thinking, these approaches attempt to reassert the value of well-being by describing this in commonly understood monetary terms.

Our final article sums up the challenges presented by the conundrum of money for value by asking whether and how we can put values at the forefront of decision-making in a world dominated by financial and quantitative criteria. This question is central to our work at **nef consulting** and how it is answered will help to determine how we all make the transition to a new economics. We would love to hear your views and share our ideas with you so please do drop us a line or give us a call.

Graham Randles
Managing Director, **nef consulting**
Tel: 020 7820 6374
graham.randles@nef-consulting.co.uk

By **Julian Baggini** and **Ian Hadden**

Money isn't

Money has its uses, but if we use it as the main way of

Money is huge. In fact, you could easily argue it is on a par with the wheel in terms of its impact on humanity. By encouraging widespread specialisation and trading, its function as a universal medium of exchange brought monumental change to our society: massive industrialisation, modern medicine, electricity, television, the six billion (and rising) mobile phones in the world and much more. As Thomas Thwaites' wonderful Toaster Project[1] shows, even building an Argos toaster - which at around £5.00 costs less than an hour's minimum wage - would be wildly impossible without the specialisation that money allows.

Don't take that holiday

Money is an amazing tool, but it has its limits; it is not the same as value and we ignore this at our peril. Money is easy to measure so we often end up focusing too much on things that have a monetary value and not enough on things that don't.

For example, the floods and snow last winter, according to a survey by Business West and South West Chambers of Commerce, cost businesses in the south west of England around £165 million. As much as we would all agree that more could be done to make the transport infrastructure more resilient, we ought to question how quick we are to assess events in terms of what they cost the economy.

It seems to happen regularly nowadays. Remember how the extra bank holidays for the golden jubilee and the royal wedding were both said to have cost the economy dear?

The problem is that anything we do that means we create less money than we could have done is a cost in this sense. So, every holiday abroad costs local business because someone is spending money over there instead of here. Every meal cooked at home deprives a takeaway or a restaurant of income.

It is easy to see where this logic leads you. Every bank holiday comes at the expense of the national purse. Every extra hour you spend with your family instead of putting in overtime costs the household money. In short, every

Julian Baggini
Julian Baggini is a writer and philosophy PhD whose books include *The Ego Trick and The Shrink and the Sage: A Guide to Living*, co-written with psychotherapist Antonia Macaro.

Ian Hadden
Ian Hadden works with organisations, from the financial services sector to central government, to help them define and deliver long-term change. Ian is also a photographer and writer. He can be contacted at ian@rootsix.com

everything

measuring success we'll lose sight of where value truly lies

minute spent not generating wealth is costing someone something.

This is absurd. We need to turn it on its head, and remind ourselves that every hour spent merely earning money or generating wealth for the nation costs us valuable time we could be using to fill with what is truly important in life – even if that is harder to measure.

Measuring the (apparently) unmeasurable

None of this is new. In 1968, shortly after declaring his Presidential candidacy, Robert Kennedy made a speech arguing that Gross National Product measures everything except that which makes life worthwhile (see page 4). Has anything changed in the nearly half a century since that speech? Well, yes, although it's gone unnoticed by many.

While not everyone agrees that it is possible to measure the joy of children or the strength of marriages, the last few decades have been host to a large amount of research into trying to do just that. We even have nice new jargon for it – well-being. As you might expect, there are plenty of competing ways to define and measure it, and terms such as 'revealed preference' and 'subjective well-being measures' are becoming increasingly common.

Initiatives abound: **nef (new economics foundation)** will help to measure your well-being in your personal life[2] and at work[3], the UK Government has recently started to measure the nation's well-being[4] and there are many more. Even those who think that accurate measurement is not possible would surely agree that this increased focus on identifying and tracking what makes life worthwhile marks a step in the right direction.

The practical implications of this backroom work are beginning to come through. There are a few examples overleaf, but there is a long way to go. We still too often mistakenly use money as a primary measurement of success, both as individuals and as a society. When making decisions about how to use our time or spend our money, we should instead consider what we really value in life. If we don't, we'll lose sight of where value truly lies.

Where's the joy in GNP (or GDP)?

"Even if we act to erase material poverty, there is another greater task, it is to confront the poverty of satisfaction - purpose and dignity - that afflicts us all.

Too much and for too long, we seemed to have surrendered personal excellence and community values in the mere accumulation of material things.

Our gross national product… counts air pollution and cigarette advertising, and ambulances to clear our highways of carnage. It counts special locks for our doors and the jails for the people who break them. It counts the destruction of the redwood and the loss of our natural wonder in chaotic sprawl…

Yet the gross national product does not allow for the health of our children, the quality of their education or the joy of their play. It does not include the beauty of our poetry or the strength of our marriages, the intelligence of our public debate or the integrity of our public officials. It measures neither our wit nor our courage, neither our wisdom nor our learning…it measures everything in short, except that which makes life worthwhile."

Robert Kennedy, University of Kansas, 18 March 1968
(abridged from the full speech[5])

Away from money, towards value and back again

Here are a few examples of the practical implications arising from recent advances in our understanding of the limits of money in measuring what we value.

Government	The UK's recent Social Value Act now formally requires public bodies to take into account non-monetary social and environmental value when they choose suppliers.
Third sector	Many charities now go armed to funding bodies with their Social Return on Investment analysis to demonstrate the non-monetary value that they are adding (although this may be stated in monetary terms in order to make their point). Read more on the **nef consulting** website.[6]
All sectors	Complementary currencies, time banks and a variety of business-to-business currencies have emerged in the last few decades; these have distinct sets of values embedded in them that are not represented by mainstream money.
Individuals	Research in the last few decades has shown that, in fact, money can buy you happiness, but maybe not in the way you thought. An article in the Harvard Business Review, *How Money Actually Buys Happiness* by Elizabeth Dunn and Michael Norton, explains[7].

1 www.thetoasterproject.org/page2.htm
2 www.neweconomics.org/projects/entry/five-ways-to-well-being
3 www.nef-consulting.co.uk/our-services/strategy-culture-change/well-being-at-work//
4 www.gov.uk/government/publications/national-wellbeing
5 www.youtube.com/watch?v=77IdKFqXbUY
6 www.nef-consulting.co.uk
7 http://blogs.hbr.org/2013/06/how-money-actually-buys-happiness/

A new way of valuing human intangibles based on well-being is gaining currency, as valuation expert Daniel Fujiwara explains.

What value well-being?

An interview with **Daniel Fujiwara** by **Rupert Widdicombe**

Economists are fascinated by the choices we make and their value to us. Our 'revealed preferences' have long been their data of choice.

All too often no direct market data are available. If you are evaluating plans to build a railway through countryside how do you put a value to the impact on the people who live there? To get round the lack of data, economists may commission 'stated preference' surveys asking people to put a value on a particular outcome. How much would you be willing to pay to protect an endangered species? However economists and decision-makers have reservations about the value of much self-reported data.

A new approach to valuation is becoming increasingly popular with policy makers. Since 2011 it has been included in the Green Book, the UK Treasury's guide to evaluating public projects. It is called well-being valuation and, to find out more, I spoke to one of the pioneers of this approach in the UK: Daniel Fujiwara of the London School of Economics, formerly senior economist on cost-benefit analysis in the Cabinet Office and the Department for Work and Pensions.

How does well-being valuation use survey data to derive values?

DF: Well-being valuation takes data on people's subjective well-being (SWB) from large surveys and uses statistical or econometric techniques to assess how different life events impact on SWB. The British Household Panel Survey (BHPS) is a popular dataset. It surveys over 10,000 people year-on-year asking them about 500 questions on different aspects of their lives, including questions about well-being and happiness. And many more UK datasets now also include questions on SWB.

In cost-benefit analysis and related techniques such as social return on investment (SROI), the value of something is the amount of money required to produce the equivalent impact on a person's welfare or well-being.

Data like the BHPS can be used to estimate the impact that a non-market good or outcome has on SWB, such as improved life satisfaction. We can also use the BHPS to look at the impact that extra income has on SWB. Using these two estimates, we can then calculate the equivalent value of the non-market good.

For example, if we want to estimate the monetary costs associated with non-market outcomes from the creation of a new train line, we could do this in well-being valuation by looking at the impacts that train lines have on SWB. It may be that people living close to train lines have one index point lower life satisfaction, all else equal. Through the well-being valuation method we would then seek to find out how much extra income would also generate an equivalent one index point change in life satisfaction. If it turned out that £2,000 increases life satisfaction by one index point, then we could conclude that the monetary costs associated with the dis-benefits from train lines is equivalent to £2,000 per person per year.

Well-being valuation can be used to value both benefits, such as reductions in crime levels, and dis-benefits, such as pollution. The richness of the data and the huge range of variables tracked means it is possible to attach meaningful values to a wide range of non-market outcomes. The method has been used before to value many things from droughts and political corruption, to air quality and good health.

This approach is useful for decision-making because it allows us to understand how much people value outcomes associated with different policies and interventions, allowing us to channel resources to areas that create most value for society.

In general, economists have reservations about 'stated preferences', so why do they find self-reported well-being data more convincing?

DF: The 'stated preferences' gathered through surveys can be surprising and arbitrary – people find it hard to put a value on feelings, and on goods and outcomes that are not traditionally traded in markets. We tend to find lots of biases in stated preference methods. For example, some people may intentionally state a very high value to encourage government to provide the non-market good or service or they may reverse or flip their choices all of a sudden.

We don't get these biases with well-being data, as we don't ask people the difficult question of how much they value a non-market outcome. Well-being data are also self-reported, but there is a good amount of evidence to suggest that SWB responses provide useful information about a person's actual well-being and how life is going for them. For example, well-being and life satisfaction scores correlate with other important factors that we would expect to be important for a person's well-being such as health, suicide rates and smiling and frowning. There is even evidence from fMRI scans to show that life satisfaction correlates well with activity in areas of the brain associated with pleasure and enjoyment.

The great thing about using well-being

data in well-being valuation is that we can assess the impact of outcomes and policies on how people experience their lives, rather than assessing impact based on what people predict and say they will like. Very often we find that people state high values for non-market goods in surveys but in the experience of their lives we find that those goods have very little actual impact on their well-being. In these instances well-being valuation provides a more accurate description of the value people place on things.

A monetary value is being put on subjective well-being – is this an appropriate comparison to make?

DF: I get asked this question a lot. The important thing to note is that we are ultimately interested in understanding the impact of non-market goods on people's welfare or well-being. It just so happens that we tend to do this using money metrics in economics, but in theory we could measure value in terms of pretty much anything. Money is a useful metric to use because it allows us to compare the value of outcomes directly with the costs of the programme, which are usually set in financial terms. Thus we don't really 'put a value' on well-being, we are simply finding the amount of money that would produce the equivalent impact on a person's well-being. It's a bit like saying this car is travelling at 97kph rather than 60mph - it's the same thing or phenomenon measured in different units.

How is well-being valuation being used today to inform decisions?

DF: Well-being valuation is increasingly being used as a complement or even as an alternative to other valuation methods in the UK. The Green Book suggests the approach 'can play an important role in challenging decision makers to think more carefully about the full range of impacts of their proposed policies' and 'question the values that they may otherwise place implicitly on these impacts'. There is also growing interest from the OECD *[Organisation for Economic Co-operation and Development]*.

A practical advantage of well-being valuation is that it is a very cost-effective alternative because the data required to run the analysis are usually already available in large national datasets. Stated preference surveys can be a lot more expensive because they entail running surveys and data collection before any analysis can take place. The approach has been used by government departments including the Department for Business Innovation and Skills (the value of adult learning), the Department for Culture Media and Sport (the value of participation in culture and sport) and the Department for Communities and Local Government (the value of urban regeneration). A large number of charities are also using the well-being valuation method to inform SROI and decision-making.

Daniel Fujiwara

Daniel Fujiwara is a consultant in economics and econometric analysis and a researcher at the London School of Economics and Political Science (LSE), where he is finalising his PhD on policy evaluation methodology. He also holds a number of advisory roles, including Scientific Advisor to the SROI Network. His research focuses on the normative foundations of cost-benefit analysis, policy evaluation methodology and valuation techniques for non-market goods. He has a strong interest in the use of subjective well-being data in policy-making and valuation and has advised numerous governments and international organisations on policy evaluation. Prior to joining the LSE, Daniel was senior economist at the Cabinet Office and worked for 10 years in policy evaluation in the UK Government, where he was awarded the John Hoy Memorial Prize in Economics for his contribution to policy evaluation methodology. He is the author of the Treasury Green Book guidance on valuation techniques.

Rupert Widdicombe

Rupert Widdicombe is a writer, editor and communications consultant. His articles have been published in *The Guardian, Sunday Times, The Economist* and other UK and international titles. He has worked as script writer and editor, a communications specialist supporting public sector reform, and a resource for development organisations in Latin American and Africa. He can be contacted at rupert.widdicombe@btopenworld.com

Most of us want more of it. Few of us understand what it really is. One thing is certain though – money does not have to be what it is today, it is a human invention long due for an upgrade.

In his book, *Frozen Desire: The Meaning of Money*, former FT journalist James Buchan calls money "incarnate desire", storing and transmitting our wishes. Money is, he concluded, "an outcome of a vast mountain of social arrangements."

Our everyday money is flawed and has shortcomings that are becoming ever more obvious. For a start, money defines an abstract economic value that is distinct from our social values. This division drives us to behavioural predicaments and catch-22 choices, sedating our personal longings with ever more consumption, while that same consumption commands the exploitation of nature and labour, the twin shackles of perpetuated misery, on the other side of the globe.

We see this subliminal schizophrenia most easily when money is crudely used to sell us things we once considered free – clean water or caring for our children, the vulnerable and elderly.

Monetisation and money-based values have expanded "into spheres of life where they don't belong", writes philosopher Michael Sandel in *What Money Can't Buy*. "It is time to ask if we want to live this way."

Economics textbooks list three

"Money is not metal; it is trust inscribed"

Niall Ferguson

Is our money really designed to do what we need it to do? New kinds of money can better represent what we truly value and enable new economies, write **Leander Bindewald** and **Rupert Widdicombe** functions of money – a medium of exchange, a store of wealth and a unit of account. There is, of course, no mention of human values such as morality, fairness, equality and justice.

Today, most of the money in the world is created as interest-bearing debt by private banks (see **nef**'s book *Where Does Money Come From?*[28]). This means our economies are forced to grow to stand still, trying to cover the interest on our debt, which in itself is not a temporal exuberance but an economic necessity. Without debt, there would be no money left in the world. At the same time, rather than wealth trickling down to the many, the perks of this monetary arrangement flow up the social pyramid, concentrating wealth in the hands of those who need it least.

One response to these flaws in our money has been to 'retrofit' our existing valuation systems with measures that somehow capture social benefit or human well-being. (See the interview with Daniel Fujiwara). A second approach is to take back from the banks the power to create money and put it where most people believe it to be, with our democratically-elected governments. However, there is a third way, an open-source, bottom-up approach – re-engineer money itself.

Complementary currencies have been springing up since the early 1980s when the first Local Exchange Trading System (LETS) was introduced in British Columbia. Today, there are local pounds in Brixton, Bristol and Lewes; 60,000

New values, new currencies

businesses in Switzerland trade in their own cooperative currency, the WIR franc; and over 100 Banco Palmas operate across Brazil.

In the 1990s, a variant known as 'time banking' emerged. Human values were explicitly put into the kernel of the currency through stating five core principles:

- **Everyone is an asset.**
- **Some work is beyond a monetary price.**
- **Reciprocity in helping.**
- **Social networks are necessary.**
- **A respect for all human beings.**

Since then time banking has become a global phenomenon, implemented across the public and third sector, particularly in the UK and the USA. The City of London Time Credits[9] scheme is just one recent addition.

Each complementary, community and transition currency, LETS and time bank, business-to-business currency and exotic variant, has a distinct set of embedded values. These values are disregarded or misrepresented by mainstream money and include the importance of local production, of community and identity, of self-determination and equity.

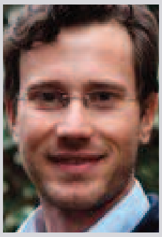
Another key common characteristic is that these currencies are used voluntarily. To succeed they have to offer a better deal to their users, and encompass their personal values better, than the current 'one-size-fits-none' money.

Choice is the key and new currencies allow us to coin our values into new wealth: by choosing a particular currency we choose what we want to see represented in our socio-economic networks.

With time banks we focus on social values based on the equality of each individual's time. The Bristol pound raises awareness of the local economy and the importance of small independent businesses. Currencies designed around renewable energy emphasize the link between our natural environment and our economies (see the **nef** report *Energising Money*[10]). The abundance of value in the information economy, where sharing means more, not less, for everybody, again requires entirely new currencies, some of which we can't even spend – such as reputation(s) collected on Trustcloud.com.

All these fulfil the universal function of any currency: facilitating collaborations. What kind of collaborations, and between whom, is only in our control if we have a genuine choice of the currency we use. Money is not the neutral agent economists would wish us to think it is. Better currencies would harness the power of innovation and choice to steer our rent-seeking, casino economy in a new direction.

ccia community currencies in action



nef's work on community currencies

Leander Bindewald manages the INTERREG IVB funded EU partnership Community Currencies in Action (CCIA) for the Finance and Business team at **nef** (new economics foundation). CCIA aims to establish greater coherence in theory and practice of complementary and community currency solutions in the public and third sector.

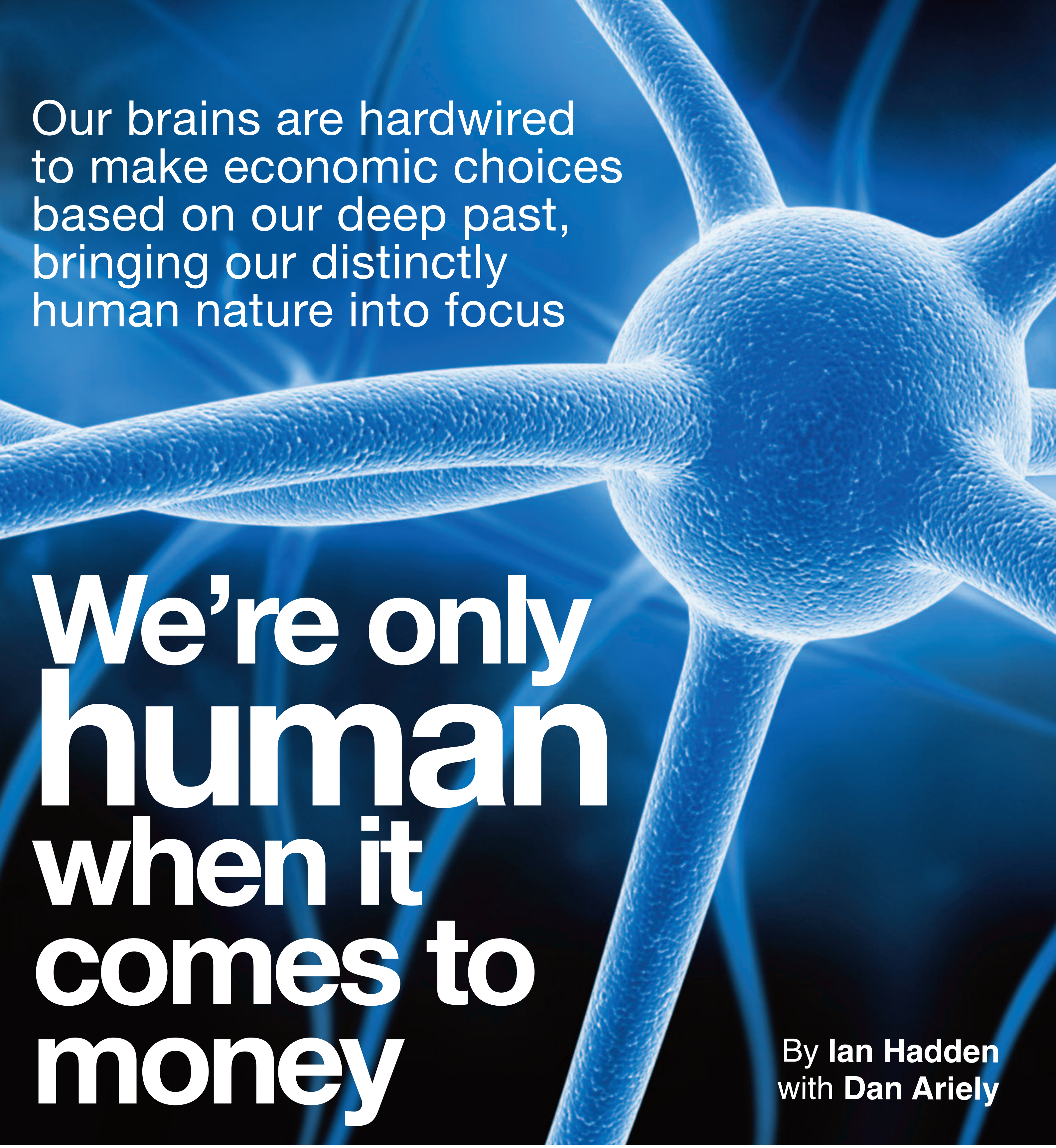
For more information go to: **www.ccia.eu**

Leander holds a master's degree in Neurobiology (Diplom Biologe) and a Master of Arts (Magister Artium) in Philosophy and Business from the University of Freiburg in Germany. He can be contacted at leander.bindewald@neweconomics.org

8 www.neweconomics.org/publications/entry/where-does-money-come-from

9 City of London Time Credits can be earned by anyone who contributes their time to the City of London community and can be spent on activities in the local area. For full details visit www.facebook.com/citytimecredits

10 www.neweconomics.org/publications/entry/energising-money



Our brains are hardwired to make economic choices based on our deep past, bringing our distinctly human nature into focus

We're only human when it comes to money

By **Ian Hadden** with **Dan Ariely**

In the first edition of Perspectives, the article *Our Buggy Brains* introduced the idea that our mind plays tricks on us just as our eyes do. These tricks are known as cognitive illusions or biases and result in the irrational but predictable behaviours studied by the newish discipline of behavioural economics.

When it comes to money we are irrational, big time. We are in thrall to the present at the expense of the future. We judge the competence of an investment manager on how likeable they are. We base long-term investment decisions on a track record of a few years. We cheat – but just a little. There are plenty more examples, often surprising. The panel on page 13 looks at a few and what they mean, both for us as individuals who spend money and for the organisations that are trying to get us to spend it.

The evolutionary psychologists are coming

All these irrational behaviours seem just, well, irrational. Are we just a bunch of donkeys that aren't very smart with money? It depends how you look at it. We are irrational in very specific ways, and these are highly predictable. Why?

As Professor Dan Ariely of Duke University puts it, "One explanation that seems to fit the data is based on how our brains evolved over many millions of years. During this time they became finely tuned to perform a very specific job. That job wasn't to make rational decisions. It wasn't even to make us happy or to give us a sense of satisfaction. It was to give our genes the best possible chance of surviving. The decisions we make today are heavily influenced by our ability to propagate our genes in our distant past; we are navigating the complex economic environment we find ourselves in today using tools that were adapted to a very different job."

Look at the behaviours on the page opposite. Why do we value fairness more than value? Maybe to encourage cooperation within kin groups - key to the survival of a species with limited individual strength but the ability to work highly effectively as a coherent social group. Why do we hate losses more than we like gains? Maybe our ancestors needed to avoid falling below the minimum threshold of resources necessary for survival. Similar types of argument can be constructed for other irrational behaviours that might otherwise seem arbitrary.

The evolutionary psychologists call it 'deep rationality'; the paper *Deep Rationality: The Evolutionary Economics of Decision Making*[11] explores the idea further.

Economics needs to go human

A core assumption of classical economics is what is called 'rational choice theory' – that we each take rational decisions that maximise the expected benefits to our self. However, the experimental evidence from behavioural economics and the explanatory insight of deep rationality turn this assumption on its head. The legacy of our evolutionary past – the unconscious forces that influence our decisions – is so powerful that we need new ways to model our economic nature.

"For economics to be relevant to our actual experience, it needs to take into account the fact that we are human, to ground itself in our distinctly human nature - our limited willpower, our strong aversion to loss, our need for social bonds. All these, and more, are fundamental to how we behave in the economic sphere – they aren't just minor footnotes" says Professor Ariely.

What does it all mean?

This way of looking at our economic world has developed only over the last few decades, and no-one has yet created a coherent, unified way of understanding what it means in practice. As page 13 hints, we know many of the pieces but we haven't managed to complete the jigsaw. It's a work in progress.

So if we don't have the full picture yet, what can we do? To start with, we can take practical steps to avoid the more pernicious consequences of thinking that we are rational economic agents. For example earlier this year the UK's new Financial Conduct Authority formally stated that it expects banks and others to use research in irrational decision-making to sell financial products in ways that protect people from buying products that are not in their best interests[12]. We can all learn to take steps to engage our rational side to protect ourselves from bad personal financial decisions; Ulysses contracts[13], reward substitutions[14] and increasing the pain of paying[15] are some of the practical techniques that can help load the dice in our favour.

Perhaps more importantly, as we understand more about our unique, social and fallible human nature, we gain insights into both sides of the equation – us and money. So, as well as suggesting techniques to help us be more rational in our financial decision making, these insights might also help us figure out the ways money itself serves us poorly. If we can redesign our own financial decision making, maybe we can redesign money to better suit the needs of our complex human society. This 'work in progress' may be one of the most important for our common future.

Dan Ariely

Dan Ariely is professor of psychology and behavioral economics at Duke University in the USA. He is the author of *Predictably Irrational* and *The Upside of Irrationality*, and more recently *The (Honest) Truth about Dishonesty*.

11 www.ncbi.nlm.nih.gov/pmc/articles/PMC2914349/
12 www.fca.org.uk/news/speeches/human-face-of-regulation
13 http://befi.allianzgi.com/en/Topics/Pages/bound-to-plan.aspx
14 www.bigthink.com/videos/why-we-do-things-that-arent-in-our-best-interests
15 www.ezonomics.com/stories/cash_or_credit_the_choice_influences_the_pain_of_paying
16 http://danariely.com/2010/12/15/locksmiths/
17 www.ted.com/talks/joachim_de_posada_says_don_t_eat_the_marshmallow_yet.html
18 www.ted.com/talks/shlomo_benartzi_saving_more_tomorrow.html?quote=1339
19 http://danariely.com/tag/cheating/

How am I irrational with money? Let me count the ways

We value fairness more than we value value.

We are often happy to pay for something as long as we can see that a reasonable amount of effort went into it – so it seems fair even if it isn't good value. For example, we can be happy to pay for incompetent service because we at least appreciate the effort.

So what? Goods and service providers need to ensure their customers see the effort put into their goods and services as well as their value. Industries with high fixed costs have a particular challenge since a high proportion of their costs may not be visible to the customer. This helps explain why online media has such a tough time getting paid – their marginal cost of delivery is nearly zero.

Learn more: The locksmith's tale[16] (Dan Ariely, 3-min video)

We're in thrall to the present.

Most of us would prefer something RIGHT NOW even if waiting even a little while would give us more benefit. It's called 'present bias'. For example, most four year olds can't wait even 15 minutes for an extra marshmallow when faced with one but those that do are more successful in later life

So what? We can't change the fact that our brains are designed to discount the future, but we can use techniques to mitigate the problems this causes. One technique, reward substitution, motivates us to behave in ways that are good for us in the long term by creating an immediate reward for that behaviour. Examples range from giving yourself a treat when you exercise (which helps you live longer) to social brownie points from the car you drive being visibly eco-friendly (which reduces global warming). As Dan Ariely says, "Reward substitution can get us to act like we care about the world when we really care about our image."

Learn more: The Stanford marshmallow experiment[17] (Joachim de Posada, 6-min video)

We really, really hate losing.

Which is worth more to you: (i) £70 or (ii) £100 minus £30? If you said £70 then you may be a closet behavioural economist. We think of a gain of £70 as much less valuable when it is presented to us as a combination of a gain of £100 and a loss of £30, even though the two are (rationally) equivalent. It's called 'loss aversion' and is surprisingly powerful.

So what? One big implication of loss aversion is that we see saving for the future as a form of loss – a loss of our ability to spend today in favour of an ill-defined far-in-the-future self. So it's no surprise that most people's pensions are underfunded. What to do? One organisation used the 'Ulysses contract' technique – they asked employees to agree up-front to increase their pension contributions in the future when they get a pay raise – over three and a half years the average contribution increased from 3% to 14%.

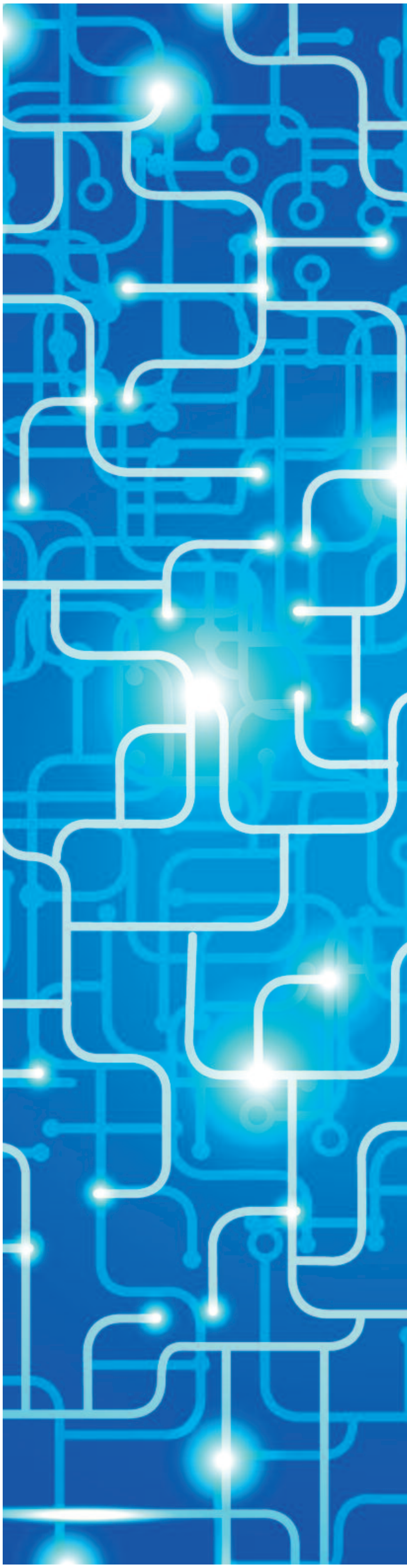
Learn more: Saving for tomorrow, tomorrow[18] (Shlomo Benartzi, 17-min video)

We cheat – but just a little.

We don't do a rational cost-benefit analysis of cheating, or we would almost certainly cheat more than we do. We cheat just as much as we can get away with while still persuading ourselves that we are reasonably honest people. It's not that there are a few bad apples, but rather that all the apples are just a wee bit mouldy.

So what? Two strategies to avoid cheating for money are evident. The first is to remind people of their desire to be honest at the point of temptation; so for example, ask for a signature on a tax return before filling it in rather than afterwards. The second is to structure working environments to reduce conflicts of interest, so that it is easy to both do the right thing and get the best result for oneself.

Learn more: Dan Ariely's blog on cheating[19]



The art funding:
the relationship between money and culture

Some of society's most treasured assets have a complex relationship with money. Making art requires money for materials and labour, but the monetary terms that dominate debate about public and private investment are not appropriate for understanding art's value as a social good.

While, of course, our lives are enhanced by art and culture, artistic work only acquires monetary value at the moment of commodification, not at its creation. This undervaluing, or exploitation, of creativity is long-standing. The joint stock company that owned the original Globe Theatre collected ticket revenue from performing Shakespeare's plays. The Bard and his fellow actors received a portion of that because they held stock in the company, not because of their work as artists. The market for producing art fails on two counts; first, artists often don't receive payment equivalent to the value they add; secondly, less art is produced than demanded as monetary value is concentrated on just a few 'superstar' artists.

Traditionally, the first problem is solved through 'making do'. Artists have through the centuries found all kinds of means to exchange their products for money. Rich benefactors, family members, patrons, gallery owners and art dealers incentivise the production of certain types of art. In addition, artists take on casual, flexible, insecure paid part-time work that in turn influences their capability and outputs. Others may simply accept a life of poverty in order to pursue what they love doing most.

A few artistic pursuits may pay well but many would argue that the closer artistic production comes to a profitable business model, the more it becomes a product (a marketed commodity) and the less it retains its status as meaningful, challenging and therefore useful art. Audiences may be averse to risking the minefield of unknown and potentially 'difficult' artworks but if artists only ever make what is already popular, there will soon be no original art made. As the long-term health of art thrives on innovation, experiment and creative risk, there is a case for intervention to overcome this bias towards the purely commercial, to inspire demand for art and subsidise its production.

The great Romantic poet, playwright and philosopher Friedrich Schiller called theatre a 'moral institution.' He wanted the theatre to serve as the conscience of a society, as a prompt to moral decision-making, and for it constantly to propose new and more open-minded ways of thinking. Since the early nineteenth century, emerging nation-states encouraged and funded the arts on the premise that engagement with art is good for society as a whole.
Governments have subsidised the arts through a variety of means - by direct patronage, through competitive grants to arts organisations, by supplementing artists' incomes, and by facilitating and

# of public

By **Jonathan Schifferes**
with Tony Fisher and **Joshua Edelman**

funding the infrastructure that artists rely on, such as buildings, equipment and touring networks. This allows more art to be produced than the market would otherwise support. Public funding comes with challenges. Art that seems indecent or causes offence can jeopardise public funding, often amounting to a form of censorship. See the panel for an example from our own past. The issue is not the corrupting influence of money as such; money – private and public – will always exert influence. The question is what are appropriate criteria for investing money? Who should give it out?

Pick your poison

In a market economy where artists, like everyone else, need money to live, we should be asking what kind of corrupting influence we find the least uncomfortable. We may argue that public funding is the best option, precisely because it can respond to the democratic concerns and interests of the people. The mechanism for funding should provide a transparent, public account of criteria, decision-making and impact. A system of democratic scrutiny can also leverage private funds. It has, for instance, become common practice for planning authorities in the US and Ireland to require developers to allocate 1% of the construction cost of new projects to public art.

At a time when the arts struggle to make their case for public funding, engaging more deeply in the language and logic of the monetary system may compromise rather than protect artistic value. All funding comes with strings attached but in a public system, the question of whether oversight is legitimate and enforceable should be decided on the basis of the public interest.

We should recognise the collective benefit gained from individual creative and artistic expression and experience. Artists at their best can show us something of who we are, honing our ability to make critical, aesthetic and moral judgements about the world around us. In our increasingly image-saturated information society these skills are invaluable. "Starving artists" nourish society, building our visual literacy. The arts are therefore worthy of support and protection through society's collective monetary resources allocated through democratic processes.

A stultifying century

British history provides examples of what can happen when the arts lose their autonomy – as in 1737 with the introduction of statutory regulation of the theatre by the first minister Sir Robert Walpole. Walpole did not intend the theatres to 'go dark'. He wanted to silence his critics such as the playwright Henry Fielding who satirised him on the London stage. The result was a century of stultifying theatre and a censorship law that was not lifted until 1968. When it was finally lifted, the theatre flourished.

Jonathan Schifferes

Jonathan is a Senior Researcher at the RSA's Action Research Centre. Previously, Jonathan worked for **nef consulting** where his projects involved helping organisations understand their theory of change, measure the impact of their activities, and calculate their social return on investment. **Tony Fisher** and **Joshua Edelman** co-authored this article with Jonathan. They both work at Central School of Speech & Drama where Tony is a Senior Lecturer and Joshua is a Research and Enterprise Fellow.

In summary

By **Olivier Vardakoulias**

This issue has presented a number of ground-breaking thoughts on the "money" and "value" conundrum. Though approaching from different angles, the articles suggest that the relationship between money and value(s) abounds with frictions and contradictions. It therefore seems paradoxical that money often remains equated with value in contemporary political discourse. This is perhaps due to the fact that money is:

- An accounting metric that is easy to measure and communicate.
- Can easily mystify the citizens who use it.
- A metric perfectly attuned to a productive system based on a utopia (dystopia) of well-being attainment through endless and infinite consumption.

Worse still, despite its very partial ability - or even inability- to reflect societal values and aspirations, money remains a central criterion of decision-making. Public decision-making processes are rife with "return on investment" ratios and financial cost saving measures, often to the extent that any non-monetary positive or negative impacts of public decisions are simply discarded or relegated to an appendix of economic appraisals. Yet these non-monetary impacts are precisely those that we, as a society, might cherish and value the most.

The question is whether and how we can put values at the forefront of decision-making in a world dominated by financial and pseudo-quantitative criteria inappropriate for analysis of real social value that has been created or destroyed by human activities and interventions. Possible solutions range from the creation of parallel organisational structures (e.g. community currencies) to the tailoring of conventional decision-making approaches to encompass values traditionally discarded in economic appraisals.

At **nef consulting** we consider that strategies that aim better to reflect societal value and aspirations, and so drive political and decision-making change, are vitally important. Our approach has been to broaden conventional decision-making tools to include values formerly excluded from the equation. However, as the use of conventional tools such as cost-benefit analysis, or of more progressive methods such as SROI, require a comparison between the value created and money invested, we have been putting monetary values on non-monetary impacts for the past five years.

Putting a price tag on well-being or ecosystem services is not only challenging, it can seem shocking. It is fair to say that well-being and environmental monetary valuation has often been criticised, based on arguments such as:

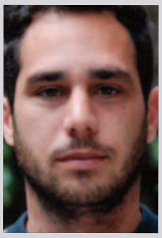
- Putting a "price on the priceless" could lead to the "merchandisation" or "commodification" of our well-being and natural environment.
- Comparing like-for-like well-being and environmental outcomes with strict economic ones can fuel an illusion that these are, or could be, substitutable. If we generate £50k of economic gains out of a project that fuels the equivalent of £20k of environmental losses and the equivalent of £20k of well-being foregone, one might get the impression that the intervention is socially "profitable" without questioning whether these values are commensurable.
- Despite very significant advances on well-being valuation (see Fujiwara), the results remain uncertain and debatable. Assigning a monetary value to well-being or the environment can only be indicative as a "proxy" figure, rather than representing the actual value.

We recognize, and identify with, these criticisms. However, we also consider that the risks of not doing so far outweigh the risks of tagging a monetary "price" on non-financial values. Indeed, most appraisal and evaluation decision-making tools still require a comparison between resources used, expressed in money, and benefits generated – also expressed in money. Such is the case of cost-benefit analysis and related methods. Within this paradigm, a reluctance to put a price tag on well-being or environmental values is synonymous with excluding them from the "balance sheet", leading to even poorer decision making.

In short, we see monetary accounting of non-monetary values as a strategic tool to build a better society, rather than an end in itself. It is a way to include, rather than exclude, what matters to society beyond money in the equations of decision-making. We equally embrace less mainstream decision-making tools, such as multi-criteria decision-making, that avoid all the ethical dilemmas and methodological uncertainties linked to monetisation of non-monetary goods and values.

We hope that the combination of our short-term strategy coupled with a long-run roll-out of new approaches could contribute to a more holistic representation and understanding of economic, social and environmental values: one that moves beyond an "economistic" paradigm. We believe this is the only route forward for responding to those social aspirations that are scarcely, if ever, represented by money alone.

Olivier Vardakoulias



Olivier is an economist at **nef consulting** working on the refinement and improvement of measurement methodologies and modelling tools, such as CBA and SROI. He has a background in development economics and environmental economics. Olivier has notably worked on the TEEB (The Economics of Ecosystems and Biodiversity) project, on the economics of international migrations, and has a considerable experience of development projects appraisal. He also has a deep knowledge of political economy, macro-economics and international economics. He can be contacted at olivier.vardakoulias@nef-consulting.co.uk

Where does money come from?

Out now in hardback and e-book

nef www.neweconomics.org/wdmcf

perspectives online

Perspectives and the individual articles are available online at www.nef-consulting.co.uk/perspectives

In addition to this issue, you can view and download the first issue:

Brains, Behaviour and Better Organisations

This issue explores insights into human behaviour and how they can help organisations make better decisions. The picture that emerges is that people are far from being the rational actors that our economic models say we are. Humans evolved to compete and cooperate socially in complex ways, and to react to circumstances according to 'fast thinking' rules of thumb, not logic. We develop habits that no longer make sense but which we find hard to break. We take decisions that are in no-one's interest, least of all our own and, on the whole, we are blind to all this irrationality – at least in ourselves. Behavioural economics examines how this irrationality affects economic choices.

Our Buggy Brains
Ian Hadden and Rupert Widdicombe, with Dan Ariely

Neuroscience and behavioural economics are shedding light on the 'bugs' in our brains that trick us. Organisations need to understand these tricks if they want to make good decisions.

Optimism and Power of Choice
Ian Hadden and Rupert Widdicombe with Tali Sharot

We are born wearing rose-tinted spectacles. Understanding this can help organisations harness their workforce to make better decisions.

Organisation – Noun or Verb?
Ian Hadden and Rupert Widdicombe with Julian Baggini

Organisations, like people, are messy and fragmented sets of competing factions with no overall control centre. They can learn from a trick our brains play on us – creating a sense of unity from a bundle of devolved processes.

Unlocking Motivation
Jonathan Schifferes and Susie Steed

Unlocking motivation relies on understanding that organisational culture informs, but is also formed by, personal behaviour.

Building the Adaptive Organisation
Jonathan Rowson, RSA

Highlights practical tools to help organisations tackle adaptive challenges, recognising that only those who are part of the problem can really be part of the solution.

nef consulting limited
nef (new economics foundation)
3 Jonathan Street
London SE11 5NH

www.nef-consulting.co.uk
Tel: 020 7820 6361