“You’d have to be green to invest in this”: Popular economic models, financial journalism, and ethical investment

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Received 15 August 1997; accepted 12 November 1999

Abstract

The paper examines “popular” models of financial markets constructed in contemporary financial journalism about ethical investment. Ethical investment is likely to be a fruitful area for the identification of popular models as they explicitly include moral criteria in addition to the more familiar concerns of risk and return. Unlike “economic” models, these popular models are characterised by the belief that individual actions have widespread economic consequences; that gains can be made by utilising appropriate insights; and finally, and more tentatively, that morality, including the belief that short-term sacrifice will bring long-term gains, provides privileged access to market predictability. © 2000 Elsevier Science B.V. All rights reserved.

PsycINFO classification: 2750; 3000; 3940

JEL classification: B41; G1; G14

Keywords: Popular models of the economy; Ethical investment; Economic rhetoric; Economic discourse

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1. Introduction

This paper is concerned with two closely related questions: firstly, with the nature of “popular” models of the economy, as distinct from the models deployed by (most) professional economists which we call ‘economic’ models; and, secondly, with the forms of argument used in discourse about the economy. One key to understanding these questions is in the desire of economic actors to personify economic relationships so as to define the possibilities of and the limits to predictability and control in economic transactions. This is illustrated through examining newspaper commentary on ethical investment. Ethical investment exemplifies the relevant issues particularly clearly.

2. “Economic” and “popular” models

Throughout the paper we use the phrase “economic” models to denote approaches to analysing markets – in the context of this paper, financial markets especially – which are based on standard neo-classical assumptions of rational decision-making and efficient market functioning. Although popular models may lack the formal coherence of economic models and display considerable diversity, they do share many features in common. These features flow from an understanding of the ways in which individuals do and should function in the market economy which is quite sharply distinct from the understandings of neo-classical economics. Indeed, at the extreme economic models can be described in terms of the intellectual origins of economic theory whereas popular models are forms of practical knowledge articulating common sense.

However, we do not want to draw too clear a distinction between economic and popular models. To some extent the boundary between the models is permeable. Popular models are susceptible to influence from more formal models (echoing Keynes’ famous comments on the influence of ideas). On the other side, recently economists have shown some humility in the light of apparent failures of their formal models of financial markets and have begun to display an increased awareness of the strength of popular models. Also, models used by financial market professionals and the financial press share many features with both popular and economic models. This is why we prefer the term “popular” to the term “lay”, which carries connotations of lack of serious professional involvement and technical expertise. Similarly, we prefer
“economic” to terms like “technical”, “professional” or “academic” to describe more formal models.

Mindful of this complexity in the relation between popular and economic models, we have tried to avoid judgemental attitudes, critically evaluating popular models against the apparently privileged insights of economic models, a tendency encouraged by the conflation of description and prescription characteristics of the neo-classical conception of rationality. We believe that popular models should be understood as legitimate discourses about the economy and that these discourses are one of the things that constitute the economy. However, we are not committed to the absolute ‘truthfulness’ of popular models. Some of the more articulated versions of popular models can be read as tacit commentaries or versions of more formal models and it is a legitimate part of the commentary on these versions to show misreadings, explicit or tacit, of the formal models that are imported into popular models.

Thus, at first sight, it may appear anomalous to juxtapose economic models which are defined by their intellectual structure with popular models which are defined by their community of exponents and adherents. However, the interplay of popular and economic models means that popular models must, to some extent be analysed against the background of a more technical analysis of economic models from which they borrow just as professional activity as evidenced in newspaper accounts of investment needs to be understood, partially, as informed by popular models of the possibilities of gaining control in financial markets.

3. Newspaper reporting of ethical investment as a case study

Ethical investment and the commentary on it in the financial press provides a potentially insightful case study of some of the relationships between formal and popular economic models because ethical investors claim to appraise their financial choices by reference to criteria other than those usually deployed in other transactions. This sometimes takes the form of an attempt to distance ethical investment from standard economic criteria, but, perhaps more often, takes the view that market outcomes can be influenced by the belief-based actions of participants in ways that conventional economists would find difficult to accept.

The financial press provides relatively well-articulated versions of many popular beliefs about markets. For example, the belief that it is possible to
acquire and use knowledge about markets in ways that enable the well-informed to secure advantages over other participants. There is a distinction between commentary and advice in the press and the use made of this by its intended audience. In the present paper we are concerned primarily with the commentary, though commentary and advice are obviously not unrelated. Note, though, that given the speed with which financial markets adjust and the large numbers of alert transactors, most economists believe that the opportunities described by the financial press would be speedily arbitraged away.

Journalistic commentary on non-ethical financial transactions moves in the two-dimensional space of risk and return and attempts to show how privileged knowledge can improve on the options open to the naïve. In contrast, commentary on ethical investment has to cope with an extra dimension of relevant expected outcomes. Media commentary therefore has to confront in a new way the question of whether acting on beliefs can or cannot produce persistent effects for individuals and groups that are not simply washed away in the aggregate of market outcomes. As we show towards the end of the paper, the rhetoric of market personification becomes exceptionally explicit at this point.

Much of the recent interest in popular models of financial markets has been motivated by the idea that there is an important relation between the beliefs of actors and financial market outcomes. We will discuss this issue in our next section and then present discussion of the rhetoric deployed in the commentary of financial journalists on ethical investment in order to establish the central features of popular models. There has long been a tendency to assert that popular models must be at work because financial markets do not always behave in the ways that conventional economics assumes. This is an inference from observed outcomes (Shiller, 1989). In contrast, economic psychology enquires into the existence and content of popular models. How this content is revealed through the discourse deployed in the journalism of ethical investment is the main concern of this paper.

4. Information, beliefs, and the functioning of financial markets

The functioning of all markets, but above all, financial markets, is sensitive to information. Though economists are very alert to this, they have paid little attention to the information actually available to and used by market participants. Instead they rely on analytical classifications of the level of infor-
formation available and its distribution among different classes of participants. The rational expectations hypothesis assumes that all market participants act as though they were using all the information required by the “appropriate” model of market behaviour. In its stronger versions, the efficient markets hypothesis widely used in discussions of financial markets is, in effect, a specialised prototype of this assumption. Assumed “imperfections” of information are motivated by observations of market outcomes which differ from the model’s predictions. The imperfections are usually described in general terms of asymmetries of information among market participants.

If market participants hold different models, rather than just lacking some of the information relevant to a particular model, they will attempt to act on the basis of other sorts of information. Discussion of this issue suggests that these models may constitute, in their varying forms, “everyday” or “lay” explanations (Antaki, 1988). Such lay explanations and the view that the beliefs of economic actors have tangible economic consequences provide one of the main thrusts of research in economic psychology (Lewis, Webley & Furnham, 1995). As our comments in the preceding section on “popular” and “economic” models suggest, we believe that such discussions to some extent use categorisations which reflect the relatively sophisticated commentaries in which we are interested.

From this perspective, it is important to understand the models subscribed to by those who offer comment and advice to market participants and the ways in which market participants utilise this information. Thus this entails describing and analysing the beliefs of market commentators and participants about how the market behaves. Those who believe that markets do not behave in ways that standard models predict have begun to develop an interest in such popular models (Shiller, 1989; Thaler, 1993; though there are much older, distinguished antecedents, including Keynes’ celebrated observations on the stock exchange, Keynes, 1936, Ch. 12; for the implementation, see Keynes, 1983). This approach receives further support from evidence that market commentators and participants do, in fact, seem often to hold beliefs which are radically at variance with those assumed by standard formal economic models of financial (and other, for example, labour) markets. Popular beliefs typically involve an assumption that it is possible to “beat the market”, especially by drawing inferences from past patterns of, say, share price behaviour or by exploiting information about a particular share or group of shares not appreciated by other market participants, even if it was in principle available to them. When such beliefs are translated into a model of the market pricing of equity they provide a rationalisation for the “excess
volatility” which some observers claim to detect in share prices. This illustrates the interaction between the model of the market held by participants and the possibly self-justifying nature of market outcomes. Unless we hold a strongly predictivist methodology and we believe that accommodating adjustments of assumptions in the standard model can rationalise aberrant observations, such interactions should be taken seriously. The next step is to ask why these beliefs are held, in the sense of the rationalisations of them given by commentators and participants, not just in the sense that it obviously appears sensible to hold them if they are true because of the economic gains which would accrue.

5. Eliciting popular beliefs about financial markets from commentary on ethical investment

We can ask market participants directly about their beliefs and we can also examine the sort of information which are available to them. The present paper is concerned with the latter (other parts of the project on which this paper is based are concerned with the former, see Lewis, Mackenzie, Webley & Winnett, 1998). It is quite likely that the models presented to market participants are simply better articulated versions of widely held beliefs about markets. The usual arguments for reification between media representation and intended audience are less convincing than for other areas of journalism: the intended relationship is more akin to fairly low-level sharing of skills than to political persuasion or promotion of body-image. This skill-sharing is deliberately reinforced by the self-proclaimed “ordinariness” of the financial transactions of many commentators and of the way in which requests for advice are solicited and responded to. We could also add that such evidence as there is about the source of investors’ information gives some weight to the media, but more to financial advisers, and that the latter are both a major source of information to the media and draw on media sources (for the 1987 crash in the US: Shiller & Pound, 1989). It would be surprising if this exchange and circulation of information did not also lead to some commonality in the interpretative models used. However, we emphasise that our focus in the present paper is on the nature of the media commentary and advice, not on the efficacy of this commentary and advice in reflecting the views of and in influencing the actions of market participants. Though we believe that the two are closely related and that this has the important wider implications which we have outlined, the validity of our conclusions on the rhetorical
understanding of financial markets displayed in media commentaries is independent of this broader agenda.

Ethical investments are particularly interesting in this respect, since their discussion very directly exposes certain beliefs about financial markets which are usually much more tacit (Cullis, Lewis & Winnett, 1992). Ethical investment involves holding portfolios of financial instruments, typically shares held via unit trusts, which avoid “bads” such as armaments, tobacco, or alcohol or promote “goods”, especially environmental responsibility. (The latter are often described as “green” investments; we use the term “ethical investment” inclusively.)

Typically those involved with ethical investments invoke the common popular belief about the benefits of access to privileged insights about the performance of particular investments. They thus raise questions about the extent to which it is possible for some participants to consistently outguess the market by holding different beliefs from other participants: in the case of ethical and green investment this may characteristically be, for example, by taking a longer-term view. But to this they often add a stronger belief about the extent to which relatively small groups of actors can influence market outcomes. Outside of professional economics, much discussion, at all levels, of financial markets seems to assume that this is possible (as in the fascination with the activities of certain well-known speculators), but ethical and green investment seeks apparently to do this deliberately in some instances in a particularly far-reaching way which extends the alleged efficacy of actions in financial markets beyond those markets and which then feeds back into them. This is even more sharply at odds with standard economic models of financial markets than beliefs about the efficacy of beliefs about market outcomes. These beliefs tend to be held by those who argue that ethical investments are effective in some sense that goes beyond individual conscience-saving, and these beliefs are reflected in much of the commentary which we have examined. As we will see, there is a tacit belief that the extra-economic (on the usual definition) motive in ethical investment somehow helps to justify their peculiar efficacy. This can be interpreted in terms of a more widely held set of beliefs which relies on personifying the impersonal operations of markets. Such personification may well be the ultimate foundation of many popular models of markets.

Thus those who are sceptical about the efficacy of ethical investment may be so because they believe in economic models of markets, or they may be sceptical of the “authenticity” of ethical investments. The market may either neutralise good intentions or it may militate against holding them at all.
There are different kinds of cynicism, and some commentaries on ethical investment invoke a somewhat incoherent knowingness that selectively rejects and accepts elements of both the economist’s and the popular models – an attitude to which we have already referred in our introductory comments and of which we will provide evidence later.

To summarise the purpose of this paper: we view analysis of ethical investment discourse as a way into identifying, describing, and analysing popular models of financial markets. The reason they provide such a useful description is that they explicitly involve actions that take into account not only risk and return but some extra-economic, on the usual definition, dimension as well. Thus both ethical investors and those who advise them and comment on their actions are forced to consider how and why they think that beliefs can influence individual and market outcomes for better or worse.

6. Morals and financial markets

Beliefs involved in ethical and green investment are quite special in market, and especially financial market terms in being concerned with the morality of actions. We have suggested that belief in the efficacy of ethical investment may be somehow related to its extra-economic dimension, but this seems to acquire particular force from the moral shape given to this dimension. Market behaviour, of course, subsists on some system of morality: respect for property, trust and so on. But there are differences and potential conflicts between the morality of ethical and of green investing. As we will see, some of the discussion of ethical investing broaches these issues. Again it forces people to be explicit about their beliefs – to articulate the sort of morality which they think appropriate to their market behaviour. It thus intersects with the burgeoning discussion, at all levels of the polity, of the morality of markets, and especially of financial markets. There is also the issue of whether the particular beliefs associated with ethical investing are seen as having a peculiar efficacy in market terms or whether they are peculiarly ineffectual: either way because they are disjoint from the usual perceptions of what financial markets are about.

It may be the case that moral beliefs, especially of the sort held by ethical investors, seem often to lead to a belief in the social efficacy of individual actions that is not held by those who work on the basis of more narrowly defined popular models yet alone standard economic models. Thus there is a two-way traffic between popular models of financial markets and popular
models of ethics. We find all these themes in the material which we examine. Here we note that, in discussing this material, taking popular models seriously is our primary methodological commitment, but that popular models acquires a particular character when the beliefs underlying the models have an explicitly moral dimension.

7. Channels of information

Ethical investors have access to information through two channels. Firstly, there are the usual channels open to all investors, essentially the promotional material of financial institutions and financial journalism, some of which specialise in ethical investment. Secondly, there are less conventional channels, such as religious organisations, charities, and political organisations: these channels place information about the investments in rather different contexts. Increasingly, the less conventional channels are being used as a promotional instrument by established financial institutions, with affinity schemes and so on, presumably, in part, to tap potential investors who have not hitherto had much financial involvement beyond quite simple transactions. This, in itself has prompted some discussion of the morality of ethical and green investment, as using means of possibly dubious morality (exploiting the financial naiveté of such investors) to promote ostensibly moral ends (as in the self-explanatory title of an article: “Sound ethics – shame about the hard sell” Sunday Independent 21.7.96).

8. Newspaper reporting of ethical investment

In the present paper, we focus on coverage of ethical investment in the UK “broadsheet” Sunday press The Sunday Times, The Sunday Telegraph, The Observer, The Independent on Sunday), with some reference to other sources. The coverage in the personal finance pages of all four UK Sunday broadsheets for the eighteen months from April 1995 was chosen as a source likely to be representative of popular but articulate commentary on financial markets – a view confirmed by the convergence in many of the arguments used and by similarities with other comparable sources which were less systematically surveyed (weekday broadsheets and the weekly financial press). The Sunday broadsheet personal finance pages are regarded by the financial industry as a major advertising vehicle, read by moderately sophisticated
financial transactors with above-average disposable incomes, or at least by those who aspire to this status.

In part, the personal finance pages present a mixture of factual information, often brief synopses, sometimes assembled into articles, of information supplied by the financial industry, either unsolicited or, especially in the latter case, requested by the journalists. The steady flow of new ethical financial products has been reflected in this. Around one-tenth of the issues of the personal finance pages carry something on ethical investment, and about two-thirds of this is in the form of brief notices of new products. Some of the more substantial articles are primarily assemblages of factual information about ethical products, sometimes pegged on to the announcement of some new product, but nearly all the more substantial articles carry some comment and often very substantial comment.

9. Coverage and comment

The coverage of ethical investment is thus quite substantial and seems to be increasing, and is becoming more evenly spread across the broadsheets. (In particular, the Sunday Telegraph initially had very little coverage as compared with the other Sunday broadsheets.) It should be noted that there is little advertising of ethical investments, particularly of stock exchange vehicles, and this also makes the extent of the coverage of ethical investment in newspaper articles quite surprising (though some ethical investments are offered by large fund managers, who advertise more generally). Partly this reflects the rapid growth of the ethical investment industry, and especially of its diversification into new product types, away from its base in unit trusts. But the reporting of ethical and green investment is also related to two other features which make it attractive to journalists. Firstly, like “alternative” investments or investments in new and “exotic” parts of the world, ethical investment has novelty value away from the usual run of financial products, and to some extent this is maintained by the invention of financial products tailored to hitherto unexploited areas of ethical concern. Thus there is scope for unusual angles (such as the apparently disproportionate involvement of women in ethical fund management: “Angels watch our stocks by day” Sunday Times 23.6.96. It would be nice but probably too subtle to believe that such whimsy revealed disquiet about mixing morals and money.) Secondly, ethical investing can easily be related to mainstream news stories, other than those usually thought of as “economic” or “business”. Thus
events such as the aborted dumping of the Brent Spar oil rig or Shell’s involvement in Nigeria, both in 1995, find a resonance in reporting of ethical and green investment opportunities on the personal finance pages. (And, conversely, there are opportunities for some coverage of green investment on the main news pages in such a context.) Reportage of ethical funds may also be linked to discussion of ethical concerns in industry and finance, such as directors’ pay in privatised industries or inappropriate investments made by financial advisers to charities; as noted, such market ethics are an area of growing concern. Thus ethical investment provides an obvious vehicle for moving beyond the thinly disguised advertising of much financial journalism and for affirming its credentials as serious commentary; it is like eco-tourism on the travel pages or green transport on the motoring pages. We will see that both these journalistically opportune features of ethical investment help to shape much of the interpretation of the nature of such investments.

10. The representative article

We do not present a quantitative analysis of the content of the material examined; instead we describe and analyse the discursive structure, method of argument, and rhetorical devices which are ubiquitous in the “quality” press coverage of ethical investment. The typical substantial article follows a standard pattern, defining ethical and green investments, distinguishing reactive and proactive strategies, and comparing performance; many articles do not go beyond this. Frequently the comment is in the form of attributed quotation from industry sources (much of it from the dominant firm of financial advisers specialising in ethical investment and, in the earlier part of the period, often from one individual within that firm) supported by standard league tables of investment performance from specialist providers, usually Micropal. The information is often presented in the context of some fairly well articulated popular model of finance or ethics or both, though often much has to be inferred about the underlying rationalisation of the models and this has to be inferred from the intersecting arguments used by various commentators.

11. Discourse

There is remarkably little specific guidance from the burgeoning media studies literature on how to interpret the sort of material in which we are
interested, that is, widely circulated representations of basic questions about the functioning of markets, and financial markets in particular. Such secondary literature as there is on media representations of the economy is more concerned with macroeconomic policy issues (such as Rae & Drury, 1993; there is also some discussion of the presentation of environmental issues in the media, such as Hansen, 1993, which is not unrelated to the issues with which we are concerned). There is also a growing interest in the use of language in relation to professional, formal economics (Henderson, Dudley-Evans & Backhouse, 1993), mostly inspired by McCloskey (1986), and also in literary representations of economics (for example, Henderson, 1995), but these are concerned with sophisticated, external accounts of the economy. Here we are concerned with the portrayal of markets to those who are intending to act in them: what sort of actions are possible and how effective will they be, financially and ethically? As we have suggested in the introductory section, the answers to such questions are not only of intrinsic interest, but may have a wider significance.

The media studies literature does, of course, commonly draw attention to certain widely used rhetorical devices, such as personification, which also figure prominently in the literature which we examine. What is of particular interest in the present context is that such rhetorical devices, especially personification, are not simply interpretative gestures to generate empathic understanding, but are presented as guides to the likely efficacy of real actions in market situations in ways that the economic model would deny.

We are, of course, aware of the wide range of rhetorical devices used in media commentary. However, it has long been recognised – at least since Marx’s Paris manuscripts – that devices which attempt to close the gap between the apparent impersonality of a socially constructed institution like the market and the fact of its social construction are of particular significance in economic discourse, at all levels. Hence our emphasis on the importance of a rhetoric of control through personification, of which the commentary on ethical investment provides especially clear examples.

12. Inferring the popular model

We are primarily concerned with constructing a picture of the implicit popular model of ethical investment which appears in these articles, especially the more substantial ones. Though there is some diversity, the articles are quite homogenous in their underlying approach and the quotations
provided could easily be replicated, sometimes almost word-for-word. Partly, this reflects the way in which information is obtained for the articles, but it also reflects common themes which run through financial journalism, and indeed are part of its rationale: that is possible to “spot winners”, to “beat the market”, and so on. Thus, to borrow, the economist’s phrase, it is legitimate to work in terms of the “representative” article. As suggested above, ethical investment requires these standard journalistic assumptions about financial market behaviour to be made very explicit, which is not to say that they are questioned.

The popular model can be reconstructed along three dimensions: the product, the investor, and the market. How are these represented and analysed?

13. The product

Most of the articles focus on the core product: the ethical unit trust. Of identifiable ethical financial instruments, this is the oldest established and quantitatively the most important. Additionally, it is easy to compare performance both across ethical unit trusts and with non-ethical unit trusts. Thus reporting can focus on the sort of league tables which are the mainstay of financial journalism. There is also coverage of other ethical products, such as bank accounts and shares in co-operative trading schemes, some of them highly “alternative”; these are the sort of products which liven-up the financial pages but are not treated seriously as investments.

There are two contrasting trends in the development of ethical products. One is towards a broadening of the agenda: this has already been seen in the move from earlier funds which concentrated on exclusion of certain investments towards encouragement of environmentally acceptable investment, and is now moving a stage further towards socially responsible investment, particularly in the area of treatment of employees. (“For many investors, particularly women, the attitude of companies to their employees may be just as important as their attitude to the environment.” Times 6.5.95, quoting a report by Albert E. Sharp.) This last links with wider issues of business ethics, and helps to locate reporting of ethical investments within this wider and more mainstream perspective. The other trend is towards niche marketing of products aimed at particular groups of investors, who may have objections to some aspects of the standard ethical package and have other requirements.
which are not covered: examples are the Oasis Fund which is “Islamically correct” (*Sunday Times* 19.6.96) and the Genesis Life PEP: “No other PEP, to our knowledge, includes the sanctity of human life within its ethical framework” (*Sunday Times* 20.8.95).

These trends have reinforced difficulties in defining ethical and green investments, either because the boundaries are becoming ill-defined or because of conflicting ethical criteria. These ambiguities and conflicts are sometimes used to cast doubt on the whole notion of ethical investment. They are questions about whether the criteria are well-defined. There is also the narrower issue of the extent to which the criteria are met. Obviously, these are related: looseness in the criteria makes it more difficult to establish whether they are met: “Is an oil company whose pollution record is improving a hero or a villain?” (*Sunday Times* 21.5.95). This “consumerist” agenda is frequently addressed in reporting of ethical and green investments: “Those who think it is simple to take a purely ethical line are kidding themselves....apparently simple commands like ‘do not touch tobacco’ can be fuzzy at the edges” (*Financial Times* 16.5.95). Interestingly, these issues are focused on by the extremes, so to speak: cynical commentators on financial markets and idealistic campaigners. Thus the Director of Greenpeace is quoted as saying: “We believe there will be a backlash against ethical investment as more disgruntled customers find they have been taken for a ride” (*Telegraph* 9.7.95). Neither believe that this is what financial markets should be about. Thus, in some reporting, there is sensitivity to the fact that apparently manageable questions of the accuracy of product descriptions can threaten to lead into wider questions of the meaning and legitimacy of ethical investment. This is often evaded, by advising investors to be alert to varying criteria and to seek further independent advice – not just of the usual financial sort but from agencies such as EIRIS who screen authenticity in a “Which”-like fashion.

All this underlines the fact that ethical financial products are difficult to handle in terms of the financial reporting criteria usually applied, since they explicitly invoke some criteria other than expected wealth maximisation. Other products have criteria, such as region of the world invested in, which are subservient to this ultimate objective. Hence the importation of evaluative criteria which are not normally employed for financial products: are they authentic, sometimes broadening to ‘can they be authentic?’ But this is followed by attempted assimilation to more familiar criteria: are the funds honest? But the underlying question then remains: if they are honest in their descriptions, what are the implications of this for investors?
14. The investor

If we leave aside the position that, through exploiting lax criteria, ethical investment never really seriously invokes other-than-standard investment objectives, there is the question of how possible conflicts between financial and other objectives are presented. Three approaches can be identified in reporting. There are potential conflicts between at least some of these, and there may also be conflicts between some of them and intellectually respectable economic models of financial markets.

There is an underlying factual issue: which is what the relative performance of ethical unit trusts, especially, actually is. Thus we find reported, a few weeks apart: “Ethical and green funds are achieving results that shame many conventional rivals, dispelling their image as lightweight vehicles for the politically correct” (*Sunday Times* 14.1.96); “Unfortunately, the record of ethical and environmental unit trusts offers little comfort. With a couple of important exceptions, they have performed disappointingly” (*Sunday Telegraph* 3.3.96). This apparent contradiction is essentially related to two issues: one is that there is great diversity in performance among the unit trusts, and the other is that their performance is quite volatile. Thus much depends on the group of trusts used and on the time period looked at. Hence there is plenty of scope to mould the reported performance to produce the desired story. Some of the reports acknowledge this, though not very explicitly; what is seldom made explicit is that almost all comparisons of small categories of investment over short time periods are open to similar manipulation, and much of the attribution of effects is not necessarily related to the ethical nature of the funds. A nice instance is the *Sunday Times* construction of a “sin fund” which outperformed existing ethical funds (“Vice is nice for big returns” 25.2.96). All this is just a version of the financial journalist’s belief that they can explain and predict stock market movements, and that investors can thereby benefit.

Against this background, the three positions that can be identified are these. Firstly, to acknowledge that there may be potentially a sacrifice of return for ethics, and to advise the investor to choose in the light of this. Secondly, to deny that such a conflict exists at all, usually on the basis of performance data. Thirdly, to argue that it does not exist “in the long run”. Each argument is problematic, so how are they presented?

The arguments for a potential sacrifice rely heavily on the portfolio restrictions which ethical funds impose: “Critics of ethical investment funds said these criteria imposed too many limitations on fund managers and hit
growth prospects.” (Sunday Telegraph 30.7.95). The argument is that this restricts the “pool of possible companies” (Telegraph 2.3.96) and therefore damages returns is quite widely repeated, though on a simple statistical analysis there is little evidence that the pool is so small that it would have this effect. For example, “the International Jupiter Ecology Fund, which has one of the strictest set of criteria of all the funds, has a choice of only 400 companies world wide, compared with a possible pool for non-ethical trusts of 18,000 companies in the US alone” (Sunday Independent 24.3.96, our emphasis). More seriously, (for example, in the same piece) it is argued that the restrictions bias funds towards smaller companies and away from some high performing areas, such as emerging market stocks, though, as we will see shortly, both of these have been invoked to explain superior performance as well. Again the problem is with selective use of evidence, filtered through accounts of stock markets which apparently underestimate how fast risk statistically declines with diversification and which claim to be able to explain short run price movements. These both seem to be ingredients of most popular models. The contrast with economic models is quite marked and revolves around differing attitudes to the use of data, the popular models inferring consequences and patterns from quite small shifts in or sets of data, and the economic models emphasising the essential randomness of data and the need for cautious inference. Such characteristics of popular models as against statistically sophisticated models (which in this context includes economic models) are common not only in financial behaviour, such as gambling, but more widely, as in interpreting coincidences.

It is also argued that returns are depressed by the high charges related to screening, but again, as will see, this argument is sometimes turned round. On the basis of such arguments, the sceptics can then say: “Only the committed investor tends to go that way because they are prepared to pay a higher charge for it, and accept limitations” (Telegraph 2.3.96, quoting Fiona Price) and the more optimistic: “Most ethical investors are not looking for the best possible return in the market, just for above average returns” (Sunday Independent 24.3.96, quoting Pat Meehan). But either way, there is an implication that a larger or smaller financial sacrifice is implied in ethical commitment, though the justifying arguments are regarded as flimsy in standard economic terms and, as we will now see, can be used to argue in the opposite direction.

Though such doubts are sometimes raised, the prevalent view is that; “Using ethics to shape your investment strategy need not be bad for your financial health. A good ethical or environmental investment should perform
as well as an investment chosen solely for performance” (Times 25.11.95). The rationalisation for this is normally a simple empirical one, based on performance tables. But, as we have seen, these are endlessly manipulable. However, there are arguments which are the obverse of those just made to explain sacrificed returns. On over weighting of small firms: “Analysts say ethical investments are well placed to take advantage of economic recovery: most enjoy high exposure to small and medium companies – regarded as good growth stocks in the current climate” (Observer 12.11.95). On global spread: “One reason the funds have done so well is that they tend to be overweight in the UK and America, markets that have risen strongly in the past two years” (Sunday Times 23.6.96). Even more than the obverse use of these arguments, these comments are characteristic of the popular belief that short-term stock market movements are explicable and therefore forecastable. Closely related to the “high charges” criticism, is the argument that such charges are justified by careful screening and therefore lead to selection of better performance. This fades into the more dubious argument that it enables ethical investment managers to spot winners more easily, in particular because the companies they are interested in contain a disproportionate number of winners. This is partly because there is supposed to be complementarity between different sorts of goodness, but, more vaguely, because such companies are harbingers of the future. This then leads into the final position we have identified.

Thus: “Simon Baker, head of the green department at Jupiter Tyndall, says companies with a green mandate are likely to be run by more astute managers. ‘They have to be actively rather than reactively managed, ... The nature of their business means they have to think ahead either because of public opinion or for legislative reasons. ... Many ethical funds invest in companies at the cutting edge of technology such as multimedia, health and biotechnology, areas that have performed well in America and Britain over the past year’” (Times 14.1.96). Here, there is a suggestion that long-run winners are also short-run winners, which seems doubtful, but the underlying argument is that, in some sense, such companies will be successful over time horizons which are longer term than for more conventional companies. “Clare Brook, fund manager of NPI Global Care, warms to this theme. For her, the most exciting discovery is a company where ‘the business case is bound up with the way the legislation is moving and how we are going to live in the future’” (Sunday Independent 5.11.95). As is common among financial commentators, there is an underlying view that the market has not fully absorbed this information and there are exceptional gains to be made,
perhaps even in the short run, or, at least, that short-term sacrifices will not last. This, again, is a common feature of many popular models of financial markets.

There is an underlying tone to much of this discussion which plays on the positive connotations of terms such as long-term and responsible, to suggest the irresponsibility of short-sighted financial decisions in contrast to ethical and, especially, green decisions which are necessarily linked to society’s long-term prospects. “Some financial analysts see it as only a matter of time before banks and pension funds start to conclude that a ... world of socially irresponsible business ... is not a good long-term financial bet” (Guardian 17.5.95). Here there is much in common with the standard agenda of business ethics, but given a distinctive slant by the linkage with the irresponsible, speculative, and even dishonest short-termism of which British financial institutions are often accused. Increased reporting of ethical investment has been carried alongside stories of pension-misselling, negative housing equity, and so on. It is thus not unreasonable to see ethical investment as good not only in its own terms but in sound financial terms and to conflate the two.

15. The market

The last argument suggests that ethical investment is attuned to the future, or at least to the future as we might desire it, and is thus a good and even rewarding activity, and not just in the sense that virtue is its own reward. However many with interests in ethical investment believe that it can actually influence the future, often in the specific sense that purely financial market decisions to buy or sell shares can influence corporate behaviour. (That is not in the sense of directly funding “alternative” economic activities or of using financial stakes to exercise managerial influence, though some of the discussions tend to conflate all these sorts of behaviour.) It is here that the existence of a popular model is most obvious and the beliefs that it encourages most at odds with standard models of the stock market. This is summarised in the comment: “A lack of investment hits where it hurts the most – in the pocket” (Sunday Independent 1.10.95). The implication is that buying existing shares is providing funds for companies, as is explicit in: “Even investors in British companies may be funding suppliers of parts for deadly weapons”; “NPI Global Care fund, for instance, enters into correspondence with the companies in which it has chosen to invest or disinvest. In this way it is performing an educational role: the companies will know that
unacceptable behaviour means no money”. (Same article; the second quotation indicates that the process supposedly works both ways: supplying as well as withdrawing funds.) Similar casual comments are frequent, as in: “How many of us bother to check what projects our savings are supporting? Like the cancer charities which found to their embarrassment that their money was being used to manufacture cigarettes,...” (Sunday Times 21.5.95); “The Shell debacle is causing increasing numbers of people to question who and what their money is supporting” (Sunday Times 19.11.95, quoting Bill Mott). “Simon Baker, manager of the Jupiter Ecology Fund, suggests that green funds could hold out a carrot to the industry by identifying, and being prepared to invest in, the oil groups with the highest environmental standards” (Sunday Telegraph 3.3.96). Though these remarks are mostly made by fund managers, they are reported without comment.

It is unlikely, but not impossible, that the authors really believe that this describes the relation between the stock market and corporate funding: in other words that transacting in second-hand claims on corporate assets somehow contributes to the funding of tangible investment. Leaving aside the slightly more sophisticated interpretation, that selling or even boycotting shares could depress their price, these comments are presumably intended as descriptions of how people are supposed to typically view the morality of their individual money use. These descriptions then circulate as actual descriptions of the effects of decisions to buy or sell shares. There is thus a conflation of individual conscious-salving with social efficacy of the sort that commentators on ethical investment would supposedly like us to believe but of which professional economists are anxious to disabuse us.

16. Discussion: Prediction, control and morality

Like many aspects of popular economic models, especially those which have a moral dimension, those promoting and commenting on ethical investment rely on personifying the actions of economic institutions. As we have suggested, there is a contrast between the impersonality of the economist’s model of the market, in the sense that individual actions are inconsequential and therefore that no one gains from attempting to predict market behaviour, and popular models which appear to suggest that individual actions are of consequence and that gains can be made by using appropriate insights. This contrast is especially strong in discussions of financial markets. As we have seen, much ethical investment commentary shows this contrast
clearly. Some of this is just an example of routine financial commentary, deploying arguments which imply that returns can be forecast from selective samples of past performance or that overestimate the increase in risk from restricting portfolios. Here, ethical investment is just another subset of possible investments, any of which can be discussed in these terms, the only quirk being the ambiguous intrusion into the commentary of a “consumerist” agenda to do with authenticity.

However, the more positive evaluations of ethical investment which attempt to lift it beyond being just another fashionable subset of investments rely more explicitly on its moral characteristics. In part, this draws on a rhetoric of responsibility to imply that this gives a privileged insight into the long-term predictability of economic decisions. Here there is a clear link between personifying the decision-maker(s) responsible for a particular performance and the ability to gain from this. This is a classic tactic of financial forecasters, here attuned to a fashionable business rhetoric of social responsibility, perhaps underpinned by more atavistic notions of long-term gain being dependent on short-term sacrifice. This appears still more strongly in the belief that ethical investment can deliver not only predictability but also control since its reach extends beyond financial markets. The actions of financial investors somehow “matter” to business decision-makers in a way that the economist’s model would deny. We emphasise, again, that there is a kind of reflexivity here: the economist’s model is socially constructed like any other, and if the popular model is widely held then it may indeed describe market outcomes, as perhaps it already does.

There is a an interesting recent development here. The rapid growth of passively-managed index “tracker” funds might be seen as signalling the transformation of the economist’s model into a popular model – a recognition that the “market cannot be beaten”. This has happened earlier and faster in the United States than in Britain (presaged by the popularity of books such as Malkiel, 1985). It should be noted that tracker funds are, in fact, a misinterpretation of the economist’s model, since they do not hold a proper portfolio of all risky assets, not even of those which are equitised. Ethical funds clearly are a rejection of this, and either have to persuade that their peculiarities confer predictability or control or both. (And, more cynically, justify the maintenance of their already relatively high transactions costs against falling costs elsewhere in the industry, a point which some commentators are already alerting investors to.) Here, their ability to draw on a rhetoric of morality to give particular force to the personification characteristic of much popular economic rhetoric is significant. Throughout
the history of commentary on the market there has been a contrast between those who invoke a cluster of concepts linking morality with predictability and control, and those who deny this. The old-established financial commentators’ rhetoric of predictability, long denied by economists, has been given a new dimension by being able to draw on a wider moralising discourse about the market.

Acknowledgements

The authors acknowledge the help of ESRC grant number L122 25 1017 awarded to Alan Lewis, Paul Webley, and Adrian Winnett and the useful comments on the paper by Chris Eccleston from the Psychology Department of the University of Bath and of two anonymous referees. The action editor was Peter Lunt.

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