The Equity Culture / Civic Fiduciary Action Lab
An Overview by Marcy Murninghan / January 2020

The proposed Equity Culture / Civic Fiduciary Action Lab remains in its formative stage, with a feasibility study underway to secure funding to plant a prototype in Massachusetts and Michigan. With funding support from Robert A.G. Monks, pioneer theorist and practitioner of good corporate governance and shareholder activism, I will continue to carry out field building to pave the way for planting the action labs, and write a white paper on the Equity Culture / Civic Fiduciary concept and strategic approach.

This balance of action and theory-building will yield not just important supportive alliances to launch the pilot labs and a white paper, but important insights that can be incorporated into r3.0’s Sustainable Finance Blueprint. Indeed, the vision, concept, and strategies embodied in the Equity Culture / Civic Fiduciary Action Lab encompass both theory and practice, and are highly compatible with the aspirations and ongoing work of r3.0.

To wit:

• The “civic fiduciary” concept extends principles contained in moral and political philosophy, along with still-evolving public fiduciary theory and legal norms, to the real-world investment policies, practices, and impacts of affluent state-chartered nonprofit institutions located in two select U.S. locations: Lansing, Michigan and Boston, Massachusetts. It challenges directly the narrow view of economic motivation, economics as a discipline, finance, and transnational capitalism that has emerged in the past six decades, compared to more expansive and humane definitions lasting through the millennia (Aristotle; Cicero; Veblen, 1923, 1997; Simon, Powers, and Gunnemann, 1972; Longstreth and Rosenbloom, 1973; Dahl, 1985; Sen, 1987; Vernon and Spar, 1989; Wuthnow, 1996; Sandel, 1998; Nye and Donahue, 2001; Sklair, 2001; Stiglitz, 2002; Skocpol, 2003; Pooley and Solovey, 2010; Shiller, 2012; Kay, 2015; Collier, 2018; and Norman, 2018). This narrow view exists alongside the explosive growth in nonprofit institutional investor assets under management, thus contradicting core values and mission.

• The “equity culture” concept extends principles contained in complex adaptive systems theory of human and ecologic well being (Meadows, 1999 and 2008; Olson, 1971; Ostrom, 1990; Sklair, 1991) that integrates multicapitals, while applying a context-based approach to identify and assess impact. It seeks to cultivate “civic financial literacy” — e.g., mapping, motivating, meaning-making, and monitoring multicapital “return on investment” — through inclusive citizen taxpayer and trustee participation. (Fig. 1)
Its governing concept is this: **Investment of tax-exempt assets under management carries with it civic moral obligations and impacts embedded in the foundation of state-chartered fiduciary authority — including the duties of loyalty and care — that need to be revived.** Such a “civic fiduciary ethic” places human and ecological well-being at its core, in service to the shared well-being of expanding circles of subject-beneficiaries, citizens, and natural resources. In other words, the civic fiduciary ethic encompasses not only intrinsic duties affecting the extant institution, but also extrinsic duties affecting the public interest for which its charter was granted by the state.

*Contribution to theory:* While public fiduciary theory is undergoing a revival on the part of legal scholars, jurists, and political theorists, missing is a coherent theory that builds out the “civic fiduciary” idea.¹

*Contribution to practice:* Beyond theory, the civic fiduciary concept envisions new institutional arrangements compatible with well-established legal norms and institutions that facilitate wiser investment of financial capital, in service to the common good. The civic fiduciary concept derives its legitimacy from the extant “social license to operate” endowed by the state, an interpretivist “criterion of legitimacy” beyond virtue ethics that legal scholars Evan J. Criddle and Evan Fox-Decent consider crucial to fiduciary regimes and relationships involving public authorities.²

Its governing logic is this: **Proper investment of financial assets under management, relying on existing research and tools along with emerging models and practices, can strengthen human, social, natural, built environment, even spiritual, well-being, in keeping with high standards of prudence and ethical conduct. This “multicapital” civic fiduciary ethic also can help to increase inclusion; repair and build stronger pluralist social ties upon which democratic self-governance and civil society depend; and cultivate informed civic power aimed at regenerative sustainable development and the quality of public life, while reducing corruption, social alienation, and inequality.**

**Renewing the American Covenant in Public Life**

The idea is grounded in transcendent ideals rooted in the American covenant — to wit, “life, liberty, and the pursuit of happiness” — and directed toward public interest priorities, specifically the overlapping realms of human rights, climate, and infrastructure. Its philosophical aim: create a political economy rooted in civic virtue that extends prevailing legal norms and institutions into new areas. (Fig. 2)

In doing this, the Equity Culture / Civic Fiduciary Action Lab seeks to promote a new model of post-partisan politics in keeping with broader civic stewardship principles and public priorities. In doing so, the hope is help to revitalize our republican system of self-governance and checks and balances, and, by extension, democracy itself.

Current tax-exempt institutional asset management features little to zero transparency, accountability, and reporting, much less opportunities for civic engagement. Proposed here is the application of the principles of democratic self-governance, with attendant checks and balances, to nonprofit investment policy and practice. Doing so will better align these public purpose institutions, occupying special state-endowed status, with the broader public interest they were chartered to serve. It also will unlock wider citizen voice and agency in doing so. Thus do “civic fiduciaries”

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become “integrated,” aligning the values animating institutional purpose that speak to a better future, with the manner in which they make and account for their investments.

**Emerging “Sustainable Finance” Infrastructure**

Be it clean energy or affordable housing, infrastructure or food safety; criminal justice reform or decent work; quality education or disaster readiness and resilience; human rights or public health and wellness; safety and security or parks and recreation; good governance or anti-corruption, there now exists a slew of financial frameworks and guidances, vehicles and tools, and key performance indicators that can supplement what government is doing to promote social and economic justice and community and ecologic well-being, without conceding financial return on investment.

As impressive as this may be, there are two looming problems: within the United States, this infrastructure exists worlds apart from the general public; it also remains aspirational, failing to address adequately the true impact of its intentions and where adjustments need to be made.

**Tilted playing field.** Throughout the world, although the ESG financial services industry increasingly is robust, within the United States it remains relatively unknown to policymakers, fiduciary trustees, and the general public. (Figure 3)

Two groups in particular lack knowledge of ESG purpose and promise:

- **ordinary people**, particularly those lacking 401(k) or other kinds of retirement plans, and
- **place-based public fiduciaries**, including
  - **asset owners with a public purpose**, particularly wealthy nonprofit institutions lacking knowledge, competence, and incentives for integrating ESG considerations into investment policy and practice; and
  - **state and local public officials** with responsibility for assuring that the public interest is being served.

The former comprises concerned citizens and taxpayers who increasingly are unwilling or unable to pay higher taxes for public goods and services. The latter includes trustees, donors, and investment officers who know little to nothing about the range of ESG tools that can be deployed in service to the common good. Both groups — taxpayers and trustees — are united in their standing as citizens, possessing more legal voice and agency than they may comprehend.

Yet both have been overlooked by an ESG industry that has grown by leaps and bounds, particularly in the last 20 years. Worldwide, this industry now is sprawling and top-heavy, replete with trilateral coalitions generating principles and protocols as well as researchers, clients, and vendors who speak primarily to themselves. As wealth and income inequality continues to spike, giving rise to divisive nationalist movements that weaken democratic self-governance and faith in free markets, this form of professional parochialism — manifest vividly in the walled garden of LinkedIn that perpetuates the image of a disconnected élite — poses an unintended real and present danger.

That situation cries out for attention and constructive remedial action, particularly at the local level and particularly at a time when public funds and charitable grants can go only so far in addressing complex and pressing public problems affecting human rights, climate, and infrastructure. The proposed Equity Culture / Civic Fiduciary Action Lab bridges these gaps.
Shooting arrows in the air. A second problem, one at the core of r3.0’s work, involves impact. As impressive as these new financing developments may be, they lack fundamental mechanisms for discerning whether or not they actually make a material impact, for better or worse, on the issues they purport to serve or the problems they purport to solve. They are akin to shooting arrows in the arrow but not knowing where, or how, they land — or the impact of their presence. That’s because these worthy ideals continue to rely on outdated accounting metrics.

The good news is that the proliferation of ratings schemes and normative criteria tee up more expansive definitions of “return on investment” (ROI) that address “other” capitals that affect human and ecologic flourishing. The current work of r3.0 involving the movement from “monocapitalism” to “multicapitalism” embodies this, along with its “context-based” approach to defining and measuring “impact” and cultivating new metrics.

The Equity Culture / Civic Fiduciary Action Research Project will extend r3.0’s work via a multilateral place-based initiative. In doing so, it sets forth a reinvigorated idea of what it means to be a civic fiduciary, in the best sense of stewardship — that is, civic stewardship — affecting institutional and individual behavior.

The ancillary aim: help prepare citizen taxpayers and trustees, along with lawmakers and policymakers, for future incorporation of existing and cutting edge research, standards and metrics, and emerging best practices that further align sustainable finance with the common good and democratic self-governance.

Key Features
Some of the more notable features of the envisioned project are its referential hallmarks, institutional design, and scale and scope.

Historical currency: The Equity Culture / Civic Fiduciary Action Research Project draws on a vast landscape of interdisciplinary experiences and insights, both current and past. As stated, it takes a systems approach for diagnosis and remedial action, relying on an action research / reflective practice and “usable knowledge-building” strategy with many overlapping parts. At its strategic and pedagogical core are two kinds of “communities of practice”: the first involves citizen taxpayers, while the second involves nonprofit trustees, professional fiduciaries, financial service providers, business leaders, elected officials, researchers, and educators.

Emerging institutional form: As envisioned, these two communities of practice will give rise to a locally-based “Civic Stewardship Brigade”; the latter will incubate the emergence of a local “Civic Fiduciary Council”. Both will operate under the umbrella of a new entity called a “Civic Stewardship League,” a nonpartisan voluntary association that will function much like the League of Women Voters. With pilots in both Lansing and Boston, both the Brigade and Council will meet, learn, and collaborate so as to prototype the wider vision of “equity culture” and “civic fiduciary” in ways enabling greater effectiveness, precision, and replication.

Holistic and multi-lateral: The design features three “multi”s and one “poly”: It is multi-capital (incorporating financial, human, social, natural, built environment, even spiritual capital), multi-asset (e.g., encompassing multiple asset classes, including public and private equity, fixed income, so-called “alternative assets”, and bank deposits), and multi-portfolio (that is, affording opportunities for portfolio collaboration, co-investment, and asset pooling). It’s also polycentric in the sense that it cuts across vertical and horizontal demographic, institutional, geographic, and ideological borders, from local to transnational levels. As such, power is distributed, too, with citizens engaged in ways that heretofore have not been evident because asset owners primarily have relied on intermediaries to discharge their fiduciary role.

References


