Of the People for the People: Re-building the Trust Economy
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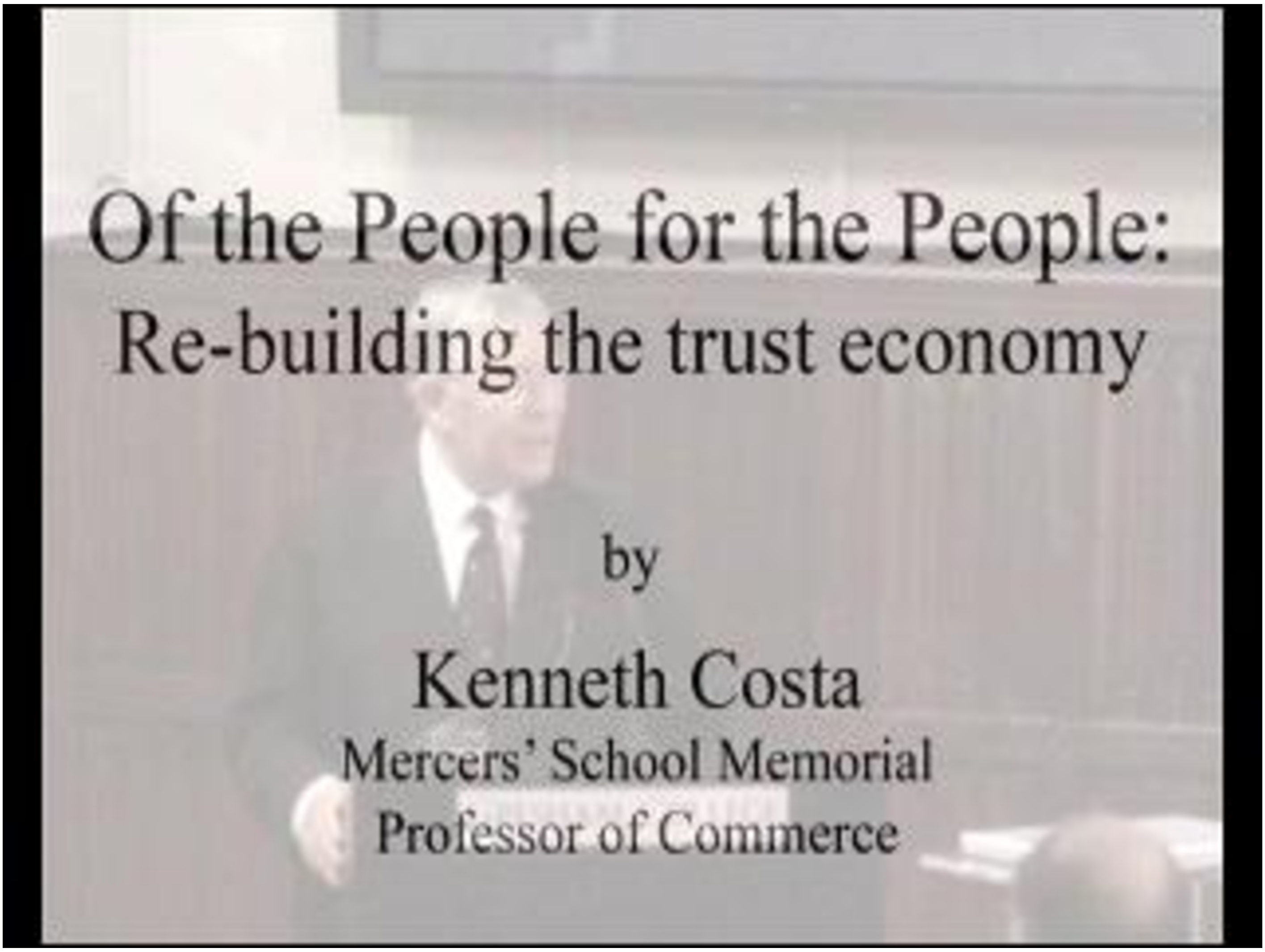

Of the People for the People:

Re-building the trust economy

Professor Kenneth Costa

1. Introduction

I am delighted to be here to deliver my first lecture at Gresham College as Professor of Commerce.

The title of my lecture series is 'Reshaping Commerce in the Post-Crisis World.' In the course of six lectures over the next year, I will critically examine the assumptions and paradigms that have given rise to the current financial dislocation, and to work towards a philosophical and practical framework for the emerging new global economy.

The lectures will argue that the central question to be addressed is: What will emerge from the current dislocation? The corollary of that is: How can our thinking be re-shaped to take into account the consequences of the near fatal financial cardiac arrest of the global economy?

Tonight I want to talk about something that is absolutely central to both those questions and indeed to the entire question of reshaping commerce after the crash.

That is **trust**.

As a banker with over 30 years experience in the City, it is clear to me that the biggest single contributor to the financial crisis has been thebreakdown of trust.

The thinker and political figure Confuciustold his disciple Tsze-kung that governing requires weapons, food and trust. If a ruler can't have all three, he should relinquish weapons, then food but last of all trust. For, as he explained, 'without trust we cannot stand.'

In recent times, trust has been eroded, damaged and sometimes decimated at all levels of the global economy.

As world leaders gather in Pittsburgh today for the G20 summit, they will be discussing financial regulation, bankers' remuneration, global trade and a series of very important issues. However, I believe that the key underlying issue facing Barack Obama, Gordon Brown and the other leaders is the rebuilding of trust.

There may well be a need for the G20 to draw together a T20, a trustee 20 who would have the simple task of negotiating the task of reconciliation between financial institutions and the wider community. President Sarkozy drew in two of the greatest minds of our time, Amartya Sen and Joseph Stiglitz to look at the issue of happiness. It is not far fetched to draw from the wisdom of senior political and other leaders to navigate the rebuilding of this vital global trust. There is no shame in asking for help from the wise and experienced.

The last G20 in London in April, the communiqué issued after the meeting was realistic about the scale of the challenge: 'We face the greatest challenge to the world economy in modern times.'

And it was specific about the urgent need to rebuild trust: 'Confidence will not be restored until we rebuild trust in our financial system.' Part of the solution, it said, was to 'strengthen financial regulation to rebuild trust.'

Some of the key decision-makers in the UK have emphasised the centrality of the breakdown of trust in the crisis. The Bank of England's head of financial stability, Andy Haldane, said on 14 September: "It is lack of trust - and hence credit - that may shape the recovery.'

More generally, in business, trust in CEOs and Chairmen has plummeted. Shareholders, depositors, small business and even regulators believe they have been let down. The economy has moved from one characterised by trust to one characterised by mistrust and suspicion. As risk has increased, trust levels have declined.

And the trust deficit has not just been confined to business leaders. On the contrary, it has profoundly affected politicians, professionals, journalists and many public figures.

Trusted professions and institutions have become less so. This has led to questions about where we get our authority from. We can't merely rely on an increasing burden of regulations. Rather we need to assert some common values.

2. So, what do we mean by trust?

For me, trust is collective or co-operative interdependence, the recognition that we would like to live well and work together and also thatwe need to.

We know that trust is hard earned and easily lost, and that it is a hugely valuable asset.

High levels of trust can contribute to a company's productivity, an army's effectiveness or a country's social harmony. The one thing we must remember when talking about trust is that we are dealing with humans. We are not dealing with machines or algorithms. Trust is widely used in economics but it is not simply an economic term.

The role that beliefs play in trust, and that psychology plays in the market has been highlighted by George Akerlof and Robert Shiller in their excellent recent book, *Animal Spirits*.

They argue that if we want to understand how economies work and how we can manage them and prosper, we must pay attention to the 'animal spirits': thought patterns that animate peoples' ideas and feelings.

We will never really understand important economic events unless we confront the fact that they are caused by such all-too-human things as temptation, envy, resentment and illusion. This fresh approach needs to be considered seriously and welcomed, as it points out the importance of human psychology in driving the global economy.

The human factor was again referred to by none other than the most prominent central banker of his generation, Alan Greenspan, in a BBC interview earlier this month. The former U.S. Federal Reserve Chairman said:

'The crisis will happen again but it will be different. That is the unquenchable capability of human beings when confronted with long periods of prosperity to presume that that will continue.'

To understand trust, therefore, we have to understand human nature.Trust is relational. Trust cannot be commanded. It is freely given. Trust forces us to recognise the importance of human nature in the crisis. This is not just a sub-prime crisis. The crisis had to deal with the very nature of who we humans are.

We work on the assumption that we give and receive trust. It's a two way street. When we go to work, to our offices or wherever, we need both to trust and to be trusted.Trust doesn't happen automatically.

We can't just say 'trust me' and expect it to happen. It needs an infrastructure. Regulation has a role to play.

There is something which I call 'the asymmetry of trust.' We expect to receive it, but aren't always forthcoming in giving it.With trust we have rights and responsibilities. We not only have the right to receive it but the duty to give it. So we need to keep asking ourselves two questions: To whom do I owe a duty of trust? Do I have a right to receive trust?

There is a temptation from some to see trust as a soft issue. This view sees the statistics as the hard issues and qualitative concepts such as trust as soft. I profoundly disagree. I think it runs to the heart of the financial crisis. Without it, we are the trouble. With it, the market can operate.

3. The Trust Crisis

3.1. Loss of Trust in Business

The banking crisis has changed the shape of the sector.

There have been iconic images such as people in the UK queuing outside branches of Northern Rock, back in the autumn of 2007. Old bastions like Lehman Brothers and Bear Stearns have disappeared.

Trouble with the banks didn't surprise everyone. The English crime writer Agatha Christie once warned: 'Where large sums of money are concerned, it is advisable to trust nobody'!

But whereas the crisis may have its roots in the US banking sector, it has gone way beyond the US and way beyond banking.

It has affected business, large and small, across all sectors, in all countries. It has shaped the way employees, investors and shareholders view business.

According to this year's Trust Barometer, produced by Edelman, 62% of people worldwide trust business less than they did a year ago.

Certainly in Britain the anger towards business leaders, primarily but not exclusively bankers, is palpable. Throughout the crisis I have been reminded of the passage in the classic novel, *The Great Gatsby*, when Meyer Wolfsheim tried to fix the 1919 World Series baseball. As the narrator says,

it never occurred to me that one man could start to play with the faith of fifty million people - with the single mindedness of a burglar blowing a safe.

This passage evokes some of the fury currently directed towards bankers.

3.2. Trust is historically very important to business and finance

In order to discuss the causes and consequences of the financial crisis, we must first say a little about what came before. There have certainly been major financial wobbles causing loss of trust before the current crisis. Before Lehman, for example, we had the collapse of Barings in 1995, famously encapsulated by the story of the rogue trader Nick Leeson.

While there were problematic episodes before the current crisis which caused damage to trust in business, they were more spasmodic and national. The recent breakdown of trust has been much more global andsystemic than what came before.So although a threat of trust is nothing new, what is new is its breadth - and also its depth. Since 2007 we have seen a systematic and deep-seated breakdown of trust in the economy and in business, as a result of the financial crisis and ensuing downturn. No sector, organisation or institution seems to be immune.

3.3. Widespread breakdown of trust - politics, society etc

We need only look at politics to see this.

The reputation of politicians in Britain took a savage knock through the expenses scandal earlier this year.

The level of distrust and anger directed towards politicians was - and remains - acute. The person most trusted by the public is The Queen, who has a permanence that no politician or CEO can match. From the time the Queen took her coronation oath over 50 years ago, she identified the bond of trust between her and her people as very important.

In a radio broadcast following her coronation in 1953, she said: 'Throughout all my life and with all my heart I shall strive to be worthy of your **trust**'. Little would she know what would happen to trust in the rest of the country.

So, people don't trust politicians. But nor do they think much of journalists, estate agents and others. Even doctors, who once had hallowed status, have seen their reputations crumble, partly as a result of the high-profile antics of a few such as Harold Shipman.

But while there is a shortfall of trust across the board affecting the doctorswe consult, the media we consume, and the food we eat, such are the complexities of human nature, we end up with what has been called 'the paradox of trust.'

As Onora O'Neill put it in her excellent *Reith Lectures* on trust:

Even if we have some misgivings, we go on placing trust in medicines produced by the pharmaceutical industry, in operations performed in NHS hospitals, in the delivery of letters by the post office, and in roads that we share with many notably imperfect drivers' (Lecture 1).

4. The Concept of Trust

In modern times, the renowned American commentator, Francis Fukayama in the book, *Trust: the social virtues and the creation of prosperity*, defines trust as:

the expectation that arises within a community of regular, honest and cooperative behaviour, based on commonly shared norms, on the part of other members of that community. (Trust, p26).

The important thing to note is that trust is a belief, specifically the belief that someone or something will be trustworthy. Ultimately, credit is **trust**.

This is interesting on two levels. The first is that trust or belief or faith is present in everyone's lives. The question is what you put your faith in.

The second point is that beliefs are cognitive, not simply voluntary. We don't simply choose what to believe - in spite of what Richard Dawkins imagines! Rather our beliefs are our cognitive response to the world. Whether we trust someone or not depends largely on whether we judge them to be trustworthy; whether or not the evidence we have of their past words and actions they qualify as meriting the faith we place in them.

So, whether we term it trust, belief or faith the bottom line is that it is a key issue for businesses in a very practical sense.

A few years ago I wrote a book called *God at Work* about the balance between religious faith and banking. Much of it was focused on issues in the workplace, looking at them from a Christian perspective.

There is no doubt that trust is a key factor in a workplace. All work done in a relationship is morally laden, because there is a requirement to trust that commitments will be fulfilled. Those to whom a commitment is given must trust that the commitment will be fulfilled. If such action is not performed, then the commitment has not been met. Trust has then been betrayed.

Our paradigm for trust is of the relationship between one individual and another and their co-operative interdependence. But although it is less tangible, we can talk about a 'culture of trust' in an organisation or society.

A culture of trust arises when there is, firstly, a generalised optimism that the person whom you are dealing with is trustworthy on this particular subject matter, and, second, this is sustainable because most of the people whom you are dealing with actually *are* trustworthy.

So our workplaces will either have, or will lack, a culture of trust, depending on how often people fulfil commitments.

And whether or not they do is crucially important to how well and how efficiently they function.

5. A Model of Trust:

This isnot to say that it is always in someone's interests to be trustworthy.

Or to put this in reverse, there are sometimes advantages to being untrustworthy.This is demonstrated by the free rider problem. In the free rider, the problem is simple. Collective action only works when everyone or nearly everyone in the group carries their share of the burden. In that way, we can achieve something large scale, which we wouldn't be able to do by ourselves, and which each of us individually benefits from.

However, the very best outcome for me personally is that all of you shoulder your share of the burden, and I quietly hide in the back room while the work is going on. Then I take advantage of the results of your collective action, without having to pay the penalty of working myself.

So if I vault the barriers and take the Tube without paying, I am a free rider.

There are three complementary solutions to the problem of the free rider. The best way to prevent it arising from the outset is by excluding people from enjoying the benefit of collective action, so that those and<u>only those</u> who shoulder their share of the burden can benefit.

Everyone buys their ticket on entry. This can be made to work for lots of things, like public transport. But equally, there are lots of things which this cannot be made to work for. Clean water is non-excludable, for instance: it may suit me to dump my sewage in the river, but if all of us do that, then no-one downstream will be able to fish.

A second response to preventing the problem of the free rider is to use political authority to command people to play their part, backed up by the sanctions of force (the law and the police). This is workable in a great many situations - indeed it is often the only option we realistically have in a mass society - but it is costly in all sorts of ways, and can be both inefficient and unsuccessful.

The problem of ensuring that most people most of the time are trustworthy, when it is often in their interests not to be, shows the need for a third, complementary solution which supplements the two already given. A non-excludable public good may be protected by law, but before the sanctions of law 'kick in' and motivate potential offenders not to offend, the third solution is the moral imperative towards good conduct.

The necessity of this third solution to the problem of the free rider, complementing the other two, is something that Milton Friedman saw with clarity. Although individual goods in the marketplace can be individually priced, so that if you don't pay you don't benefit, nevertheless the smooth running of the market itself is a public good that requires a generally agreed code of practice to work. The most egregious anti-competitive or fraudulent actions are enforced by law, but most people most of the time need to be trustworthy for the market to work.

In both games and society, no set of rules can prevail unless most participants most of the time conform to them without external sanctions; unless that is, there is a broad underlying social consensus.

This point is so significant that even Friedman's famous article, 'The Social Responsibility of Business is to Increase Its Profits', which is a polemic against the notion that business should be philanthropic, includes an identical caveat in its final line.

He tells us that business must 'stay within the rules of the game, which is to say, engage in open and free competition without deception or fraud.' This is significant. It means that the competitive instinct cannot be untrammelled. It must operate within the constraints of the social consensus. If this does not happen, as people break the rules of the social consensus, the market itself begins to break down - it becomes anti-competitive, and distorted.

One of the most prominent thinkers on trust, Russell Hardin, says that the best explanation of trust is that we operate a model he calls 'encapsulated interest'. I trust you, because I think that you will act in fulfilment of a commitment because you want to benefit in some way - from a continued relationship with me, or because you love me or consider me your friend, or you want the benefits of a reputation for being trustworthy.

You take my own interests into account, because doing so serves your interests, and this causes you to act in a trustworthy manner. This then justifies my trust in you. In other words, you are trustworthy because it is beneficial for you to be so, and I trust you because I am counting on your self interest.

Much of this is undoubtedly right.

Often we are trustworthy because it is in our interests to perpetuate a relationship, or our reputation hangs on it. But I don't think it's hard to see that this cannot be the final story about trust, especially when we enter the complexity and anonymity of a plural, mass society like ours.

Put simply, in business the significant majority of dealings are with people you don't know personally.

Often we will behave in a trustworthy manner because our reputation matters to us. But if we only behave in a trustworthy manner because our reputation matters to us, then we aren't actually trustworthy; we only want the reputation for being trustworthy.

This is what happens if we only encapsulate someone else's interests in our own because it is beneficial for us to do so. Someone who only wants the reputation for being trustworthy doesn't actually want to be trustworthy.

6. Culture of Trust

There are benefits to building an economy of trust, social, economic and commercial benefits to developing a culture of trust. Well, what are they?

In his work on trust, Francis Fukayama argues that the most important factor in influencing a country's prosperity and competitiveness is the level of trust or cooperative behaviour based upon shared norms.

Businesses cannot thrive if their brands are not trusted and if their relationships with suppliers, stakeholders and the public are marked by mistrust. In particular, consumers are more inclined to buy goods from companies they trust. Think of Japanese cars, German washing machines or Swedish furniture.

So, in the main, a culture of trust is not just good morals. It is also good business.

7. The Four Betrayals of the Financial Crisis:

The full consequences of the credit crunch and the sub-prime debacle are still playing out but, in the main, the problem was caused by trust being placed in untrustworthy individuals and institutions.

There are four betrayals of trust in the current financial crisis I would like to highlight:

7.1. The first betrayal of trust was in the initial sub-prime exchange between banks and individual borrowers. Here, trust was betrayed in both directions.

Ill-informed consumers were allowed to take out loans that they were ill-placed to honour, except on the most optimistic forecast assumptions.

Greed overtook those who were marketing sub-prime mortgages, so that they were no longer concerned with whether the borrower could ever repay the debt. That trust was betrayed.

7.2. The second betrayal of trust was in the exchange of information between the ratings agencies and the banks.

Ratings agencies misrepresented the risk of relevant collateralised-debt obligations.

An untrustworthy triple A rating is clearly disastrous, and was delayed because no agency wanted to be the first to recognise the problem.

The relationship between banks and rating agencies was ripe for a conflict of interest. Those offering the debt packages were paying the agencies to rate them, giving clear incentive for the agencies to rate the packages highly.

7.3. There are other, more subtle betrayals of trust. As a third betrayal, we must consider a structural question, compensation.

Traders have been getting paid to take on bets that may return high profits to the firm but are very risky; much of the risk only revealed in the long run after bonuses are paid. In plain speak, we have been incentivised to be greedy.

This is disastrous. One senior banker commented in July 2007 that "as long as the music is playing, you've got to get up and dance."

With some prescience, however, he noted that 'when the music stops, in terms of liquidity, things will be complicated.' The frightening point is that this realisation was not sufficient to change behaviour.

7.4. Fourthly, there may be many in society at large who feel that governments' actions over the recent times have had more than a whiff of 'socialism for the rich' about them.

So, while there was good reason for it, the now long litany of public rescues of private institutions in both the US, UK and Europe sets an uneasy precedent. For the market to function, the risk-taker must reap the reward of their efforts, but the risk-taker must equally bear the penalty of failure.

Nationalizing the risk of failure, and privatising the rewards of success, has made the public question their trust in government.

8. Building the New Trust Economy

If, as I have argued, the biggest single contributor to the financial crisis has been the breakdown of trust, the major question confronting us is how do we re-build it? How do we re-establish confidence in the relationship between institutions and their stakeholders, regulators and government?

Three important steps are needed.

In the first place, all need to learn important lessons from what has happened - whether politicians, economists, bankers or the public as a whole.

Secondly, companies need to be willing to admit the serious breaches in trust that have taken place and apologise for their own role in this breach.

Thirdly, there is a need to offer and embrace forgiveness, not of course a particularly common or financial term. In other words, we need to draw a line under what has happened and bring about closure.

I want to examine each of these steps in detail in a moment. However, before I do allow me to offer some reflections on the context in which we take these and the nature of trust itself.

The human dimension

In rebuilding trust, we are embarking on an essentially human and, therefore, relational activity. Trust cannot be learnt from a multiple choice on-line programme. It is seen and modelled in people. It's not our default position.

Trust, rather, has to do with the way we choose to live our lives, not only in work, but also in our families and communities. Thus, we cannot simply offer 'technical' solutions to the economic problems confronting us today. If the G20 only consider econometric, quantitative and technical responses to liquidity, stimulus and exit strategies, it will fail to address the fundamental issue of our time, the fundamental thread that weaves the financial fabric together.

The reality - the unpalatable reality - is that we, all of us, have a propensity to deviate from the common good. Our inclination is to favour the 'me' over the 'we'; to prioritise short-term gain over long-term commitment; even to prefer greed over moderation.

Clearly, there is an important regulatory role here. However, we should not imagine that regulation in and of itself will cure what Isaiah Berlin called 'The crooked timber of humanity'. An external support may well correct the worst excess of a tree growing crookedly, but it will be insufficient to straighten it out. Regulation will be helpful - necessary indeed - but it will not deal with the fundamental issue at stake.

So, with that in view, let me outline four general responses that are required.

1. Recognise our inter-connectedness and the responsibilities it carries

First, and most obviously, we need to learn lessons from our mistakes.

In particular, we need to remember that the world is an extraordinarily interconnected place.

No economy is self-contained. The products created by financial institutions have an unimaginable impact on parts of the world not even considered when they are being developed. The sub-prime trailer funded in San Diego was parcelled up, sold and finally held by investors in every part of the globe with catastrophic consequences.

That's the first lesson: recognise out interconnectedness and the consequences that brings with it.

2. Re-examine the concept of shareholder value

Secondly, shareholder value should never be the sole strategy of an institution. In recent years, the need to maximise shareholder value has carried all before it, a fact that has had serious implications well beyond the shareholder base.

There needs to be a recognition of a wider stakeholder, meaning communal and societal, interest. Jack Welch has pointed out that shareholder value as a strategy was deeply flawed. In addition, he has rightly shown that it is an outcome and not a strategy. Profitability clearly matters, but it does so only when the institution is responsive to its wider responsibilities to society.

3. Facing up to wrongs

Going beyond these two lessons - the need to recognise our interconnectedness and the need to move beyond stakeholder value as the sole objective within a business strategy - the next step is to admit wrongdoing. To say sorry.

It's probably right to say that the word sorry is not often found in economic textbooks. It is not an economic word.

It is mark of the severity of our crisis that the word has been uttered frequently this year.

The chairmen of many banks, including Barclays, RBS and Lloyds have apologised for their part in the financial crisis. As far as I can judge, these confessions have been unqualified and sincere. And they have not merely been political apologies, made with fingers invisibly crossed only for the sake of some long-term political expedient.

Saying sorry is a crucial step in the re-establishment of trust. When such apologies have been made to the public in general, to shareholders at their general meetings, or to Parliament, it allows us to move on.

We should develop a public culture in which sorry becomes and easier and more frequently heard word, and which, when articulated sincerely, allows us to move on, and not simply to pursue a different witch hunt.

The distinguishing feature of mature economies is not so much how they build trust, as important as that is, but the ways in which trust, once broken, can be restored effectively and quickly.

4. Drawing the line

The fourth and final step relates to another unfamiliar and uneconomic word: it involves offering and embracing forgiveness. Or, to put it another way, drawing the line.

Understandably, people have viewed confession as insufficient and have looked to see whether financial institutions have actually learned the lessons from the past; whether they have admitted their share of wrongdoing; and whether have taken steps to reflect the sincerity of their apologies.

Boards have been changed, executives dismissed, supervision of risk increased, closer regulatory intervention accepted, clearer definition of products to be sold assumed, along with other actions aimed at responding to the widespread breach of trust.

More concrete action is needed before trust is restored. But the starting point is the drawing of the line. It is emphatically not the end point.

Archbishop Tutu reminds us in his book of the same name that there is no future without forgiveness. And just as this is the case in our personallives or our political ones, such as the situation about which Tutu was writing, this is also a financial truth.

Trust will take years to build, but the line needs to be drawn to allow the process to start.

Is this too soon - especially when millions are still suffering under the burden of a recession?

What form should it take? Who is forgiving whom? Could it be official - part of the communiqué from the G20 - or must it remain more personal, more informal.

These are all good questions that are open to debate. But the need for that debate should not hide the fact that closure is an essential part of initiatingany process aimed at rebuilding trust.

So those are four steps that are required in order to rebuild trust in the economy. These are big themes, so I want to end by looking briefly at what *actions* might be taken in response to these overarching themes. Let me suggest a few.

9. Practical steps

1. Partnership: There has been a significant amount of discussion about new structures for our corporate entities. It would be of great value to re-examine these and perhaps to revive one such model, namely partnerships.

I recognise that it might be difficult to restructure institutions into formal partnerships. However, there is clearly value in trying to break down business units and operating divisions into smaller units where a limited number of people can be bonded together; where they can owe more obvious duties of trust to one other; and where they can monitor and encourage the growth of trust; where they can work together in cooperative interdependence. There would be a clear line of sight to the profits and to the losses.

For these to be effective, there needs to be some external influence, perhaps a quarterly meeting with someone not working within that division or the corporation who could reflect a wider systemic or social point of view. In this way practises will grow that will take into account the broader common good in which business operates.

2. Risk: What is the Risk? This is a critical question. Before the crisis, risk was domesticated to the particular financial institution. We now see that the assessment of risk, not only to the institution but to the broader community in which the institution operates, is of paramount importance.

It would, therefore, seem sensible to add at board level to the formal audit, health and safety and remuneration committees a risk committee. This would be distinct from current practices in that the chairman would not be drawn from the executive branchbut would be a non-executive director, who acts as a proxy for the silent partners, i.e. the communities that would be affected by the commercial risks undertaken.

3. Mission statements: Almost every major corporation has a mission statement. The question is, are they monitored at a sufficiently senior level? Again, this is a task for board level involvement. Most organisations would see service to clients as being of paramount value. If this had been adhered to, the present crisis would have been averted.

4. Conflicts of interest: Structural change will be required to resolve issues of conflict that have arisen within integrated financial institutions on the one hand, and also between all financial institutions and the communities in which they operate on the other.Conflicts of interest inherently undermine the trust of the users of the services provided by the institutions. There was a lingering suspicion that Chinese walls could not effectively provide the comfort that third parties required. The crash has shown this to be true.

5. Transparency: Greater transparency builds trust. The full disclosure of the structure of remuneration and the terms of employment of key individuals in institutions benefitting from the taxpayeris an essential part of rebuilding trust. Shareholders should also be put in a position to understand the risks that the companies in which they are investing are facing.

6. Rewards and punishment: If trust is to grow, users of banks, insurance companies and brokerage houses must reward institutions that have taken steps to establish trust, and withdraw custom from those who don't. I've heard the comment we don'ttrust securities company X, but then they are the best, so we use them. We can't have it both ways.

7. Integrating trust: We can no longer assume that participants in global financial markets either start or continue in their working careers with a refined understanding of trust. This is serious and, in as far as trust can be taught - in an objective sense - it needs to be. The expectation that this basic human value would have been taught at home or in school is no longer tenable. Learning about trust - its importance in commerce and the ways in which trust, once broken, can be restored - should be part of the continuing education and training programme within all companies.

We rightly concentrate on quantitative analysis, risk and regulatory issues, but if we are to avoid the enormous financial burden of ever increasing regulation there needs to be a deeper commitment towards the building of relationships internally in financial institutions and externally with clients.

If such a programme is to be effective, it can't merely be taught as an introductory course. It must, rather, become an integral part of the day-to-day way of commercial activity, by precept and example, by regular monitoring through internal reward and through rigorous penalties for breaches in trust.

Regulation

Let me add a comment here about regulation. There are those who argue that trust can be rebuilt solely by new rules. They contend that fresh regulations will address the problems of the global economy. But new regulations can only get us so far. And new regulations can often have unintended consequences and cause unforeseen difficulties. Just as we can't have trust without a framework, we can't have the framework without trust.

Values, service and purpose

The present crisis provides us with a unique opportunity to rebuild solid foundations for the global economy.The challenge for business is not only to produce goods and services, but to produce those things which really are good and of service. The financial service industry is no exception.I have observed over 30 years in the City the driving desire of many to work hard, be rewarded well and get out as early as possible.

I appreciate the sentiment, but that is no recipe for a sustainable industry or healthy society. We cannot afford to lose the wisdom of practitioners, developed through market cycles, in favour of an aggressive youth culture of the fast buck.Values and an ethic of service matter. These require not only statements but incorporation into the arteries of the corporate body. Unless this happens, further regulatory intervention will be inevitable.

It is time for financial institutions to return to the values which gave rise to them in the first place - putting the client before proprietary interest and instilling a belief that all intermediaries are servants, facilitating economic activities and not primarily principals in their own right.

This is about enlightened self-interest of course. Trust - as we have seen - flourishes best within an accountable institution which recognises and defines its overall purpose and the direction in which it wishes to see the organisation grow. It also enables a deep cohesion to grow within the organisation which is reflected externally as trust is embedded, monitored and rewarded within the institution.

10. Conclusion

So: to my conclusion.

I have argued that the biggest single contributor to the financial crisis has been the breakdown of trust. The claim is both simple, but the effects are profoundly complex.Confucius, in the 6th century BC, understood that trust was the essential ingredient in governing people and society. Unfortunately, at the beginning of the twenty-first century, we forgot that.

The challenge confronting all of us today is to rebuild trust, not only in our economy but also in politics and culture as a whole.In order to undertake this Herculean task, certain steps must be taken. We need to learn the lessons of what has happened, admit wrong doing and work assiduously to deliver the paradigm changes and actions that reflect this new attitude.

Theologians tell us that repentance and forgiveness are not simply negative, ending certain practices and being regretful about past actions. They are also more positive. They are about a fundamental change in our attitudes and actions. That is what I have attempted to set our tonight.

The challenge for the G20 is to draw a line in the global sand and encourage a more human, and therefore humane, economic vision. This is the challenge of our time.

It is in embracing that vision that we can rebuild trust in commercial life. We have an extraordinary opportunity before us. If we succeed, we will be creating a better life, not only for ourselves and those in the poorest parts of our world, but for future generations. We owe them nothing less.

Thank you.