**The City: Past Historic / Future Perfect**

**The Rt Hon The Lord Mayor of London**

**Alderman Nick Anstee**

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Ladies and Gentlemen

Two months ago, Gresham Professor Michael Mainelli told an audience of City professionals that the City was finished as a leading international financial centre if it failed to change or adapt[[1]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftn1" \o ").

He's not the only one.

In 2008, just after the financial crisis broke,  Jim Rogers, a business partner of George Soros[[2]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftn2" \o "), was reported to have said he thought the City of London's period of supremacy was over; and, he added, 'I've sold all of my sterling'[[3]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftn3" \o ").

Late last year, the introduction of a tax on bankers bonuses led one City expert, Mark Walters[[4]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftn4" \o "), to suggest the City might have reached a tipping point.

He argued that in quick succession, the City had been hit by a 50% income tax rate , a rash of legal cases on tax residency, and then the bonus tax on bankers' pay; and this bonus tax would be a "final element in killing the golden goose.".

In fact many people have suggested the financial crisis was a tipping point, the point at which an old order would fall away and a new one emerge. What is the old order? The old imperial powers -the UK, Europe - and I will take a leaf out of Niall Ferguson's book and include America among them.

And the new order, as they see it? The BRICs of course - Brazil, Russia, India, China, and beyond.

Indeed, I would like to quote from a speech that many of you may feel you recognise already[[5]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftn5" \o "), a speech that might have come directly out of the City of London in 2007:

"What is it - that attracts investors and financial institutions to this city? The answer lies in our fundamental strengths. These include our simple and low taxes; high-quality services; free flow of capital with no foreign exchange controls, and a stable, fully convertible currency; as well as a free economy buttressed by the rule of law and an independent judiciary. Our regulatory regime is on par with international standards; and our regulators are tasked to ensure a fair, transparent and orderly market."

That was Miss Au King-chi, at a conference in September last year positioning Hong Kong as an International Financial Centre

There is no doubt at all that the City faces serious competition from some well placed competitors.

**Historical narratives: millenarianism****[[6]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftn6" \o ")**

This shoehorning of a financial crisis into a grand historical narrative is tremendously tidy, tying up the loose ends of empire, fitting them into a familiar structure: the decline and fall of the Roman Empire becomes the decline and fall of the UK. But it is just a little too neat for me.

In 2008 City financiers were knocked for six. They sat around hunched like repentant sinners after the apocalypse, whispering anxiously about the future. And that is where I think this tipping point narrative comes from: from a massive collective loss of confidence.

When I was growing up, I could never quite understand why people believed in the Marxist interpretation of history, which suggested like Calvinism that we were all heading to a pre-ordained end. Those who at the close of the first millennium felt that the Day of Judgement was upon them. Those in our own age, who believe perhaps like James Lovelock that we are like "passengers on a small pleasure boat sailing quietly above the Niagara Falls, not knowing that the engines are about to fail[[7]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftn7" \o ")."

Because - whether you are looking at the rise and fall of nations, or climate change, or our own individual lives, nothing about the future is certain. Nothing about the future is fixed.

So today I want to consider whether the City is "past historic" - in other words, whether the City has had it, or whether we can work towards a "future perfect" - a better, brighter future for the City - and for us all.

After all, history tells us there is cause for optimism.  The City is good at change. In the 17th and 18th centuries, this was the centre of a maritime trading empire. It then grew into an international financial centre. As recently as the 1980s the City liberalised and opened up to overseas investors. We have  weathered crises and come back -  stronger than before.

**Credentials**

As Lord Mayor of London my principal role today is to support and promote all UK-based financial and business services - regardless of nationality, and whether they are based in Edinburgh, Manchester, Bounemouth or Cardiff. I was elected last November. In real life I am a senior director of the City Law firm S.J.Berwin and a Chartered Accountant by training.

I have already travelled to over a dozen countries, promoting the City - and by the end of this year I will have spent some 90 days with business delegations in 23 countries. When I am overseas I have access to a lot of people who talk frankly in private meetings about the state of the financial services industry, and how they view London. So I hope I am well placed to tell you about the City of London, how we are perceived and whether or not the City has had it.

*Past Historic: State of the City:*

So after the financial crisis, and all the doom and gloom, you could be forgiven for believing that the City of London has fallen off the edge of the world as an international financial centre.

Nothing could be further from the truth.

According to the World Economic Forum's Financial Development report late last year[[8]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftn8" \o ") the UK is the world's leading international financial centre today.

The report shows the UK is particularly strong in, insurance, foreign exchange, derivatives markets, mergers and acquisitions and securitisation.

And  the latest Global Financial Centres Index (8) which rates financial centres according to the opinions of senior financial industry practitioners, ranks London top, New York second, and Hong Kong and Singapore closing in behind in 3rd and 4th place.

However there are **significant threats to** the City: government actions on tax and regulation have had a significant impact. Indeed, in some of my recent conversations with Asian finance ministers and bankers, a number commented that the direction of current policy in London is 'scary'.

I want to run through some of these threats.

1. Firstly, the state of the national finances:

The week before last the Office for National Statistics published a new analysis of Britain's indebtedness, which suggested that we are some £4trn in debt, 4 times higher than the last estimate (£903bn).[[9]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftn9" \o ") This new analysis includes off balance sheet liabilities including that relating to the private finance initiative.

The major part - about half of the debt -  is the cost of public sector and state pensions. A quarter of the debt is the cost of the bank bailouts, which of course we hope will be recouped in full and with interest - as has happened in the United States.[[10]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftn10" \o ")

In order to pay for this debt, and not burden future generations, we would all need to pay around 30% more tax today[[11]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftn11" \o ").

The problem with this is obvious: as an international business would you invest in a country with such huge national liabilities? At what point will that country start trying to extract money from you or your company, to pay for those liabilities?

For many foreign bankers in London, and for other financiers, that looks exactly like the situation we are in. If we want to hold on to our existing international investors and keep attracting new ones, we need to prove that the government will not simply regard them as a source of revenue, but will nurture them as a strategic asset. We need the government to provide a competitive business environment underpinned by policies that offer predictability, stability and clarity, to ensure that the City remains a valuable cluster of specialist international expertise.

So on to a related point

2. Taxation

Businesses across the UK welcome the planned reduction in corporation tax under the coalition government from 28 to 24%[[12]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftn12" \o ") - the lowest in the G7 and the fifth lowest in the G20; but other rates of tax remain arguably too high.

It's not just the City saying so - the global think tank the OECD has just published a paper on the policy challenges facing the UK and it believes that the 50% top rate is likely to have an adverse impact on incentives and entrepreneurship, particularly of high skilled workers.[[13]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftn13" \o ")"  It suggests "40pc" would be more competitive.

3. As to Regulation in the UK:

It is going to get tougher. Arguably that is a good thing, making markets safer. But there is concern about typical UK gold-plating of regulation - and leaching of Financial Services Authority staff as the transition from the FSA to the Bank of England takes place.

In Europe, the quality of UK communication is critical if we are to influence EU decision takers who do not fully understand financial services.

As you know, the age old remedy to any crisis has been reams of regulation and regiments of regulators. It is an approach that has not worked so far. So why should we expect it to do so now?

Is it a correct response when rules are overwhelmed by unforseen circumstances, simply to update them? Or should we, instead, conclude that one should be less constrained by rules and have more scope to exercise judgement, albeit better judgement?

4. In relation to the Bank levy

Well, it is arguable that if this is a one-off and will help to dispel public anger towards the banking sector, it may be worthwhile.

However, why should overseas banks located in the UK - particularly those without any involvement in the financial crisis or the bailouts, help pay for them? What do they get for it? The levy is seen as nothing but an 'economic rent' - the price you have to pay in order to get a licence to operate here.  Overseas bank branches - and London has around 250 of those  - are excluded from the credit guarantee scheme. It seems there could be better ways to raise this sum of money, especially when the Chancellor is urging companies to relocate here.  And where is this money going? Not towards a dedicated bail-out fund as originally planned, but instead into general government coffers.

But this is not the only levy on the cards. At a speech in this room on 12 July to the British Bankers Association, City Minister Mark Hoban said, "We will explore the costs and benefits of a Financial Activities Tax on profits and remuneration, and we will ask the FSA to examine further options in the forthcoming review of its remuneration code." So banks could be hit twice - by both the levy and a financial activities tax. Since the election, has the government moved from urging an international solution through the G20, to taking unilateral action.

In the long-term, the problem with levies like these is they create uncertainty about the future. They may undermine confidence in the UK. Arguably they may damage the economy by hurting the banks' ability to lend by making them hold more capital.

5. Then there is the issue of pay:

There is a strong steer from the government that banks should pay smaller bonuses to reflect the mood of the times.

With banks, the issues around compensation are being addressed. It's worth remembering that Adair Turner, Chairman of the Financial Services Authority told us last year: "It is possible to overstate the importance of bonus structures in the origins of the crisis: they were," he believed, "much less important than huge failures in capital adequacy and liquidity regulation."[[14]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftn14" \o ")

Pay is an emotive issue. It is an international market place and we have a global pool of talent, with talented people who could work anywhere in the world. If we become uncompetitive on pay, that could lead to the downfall of the UK's financial services industry.

The key thing, surely, is that reward must be better related to long term business sustainability, and must be genuinely earned. Which is why I welcome the FSA's work on pay, which I will come to later.

6. And much has been said about banks being too big to fail:

Since the financial crisis, many pundits have suggested that we need to return to Glass-Steagall rules where investment and retail banks are separated.  In June this year the cross party Future of Banking Commission urged the Government to consider a break up of the big "integrated" banks such as Royal Bank of Scotland and Barclays, which run both retail and investment banking businesses[[15]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftn15" \o "), as a way of avoiding future public liabilities for bank failures.

The Government has also set up an independent banking commission, under Sir John Vickers. Taking a long-term view of banking reform, it will look at all the options for addressing the challenge of banks being "too big to fail".

But it was not the integrated banks that failed. Other major countries have no intention of splitting up their banks. And work done by historians on the Glass-Steagall Act suggests that even in the 1930s commercial banks with affiliates were less likely to fail than stand alone commercial banks[[16]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftn16" \o "). The mixture of commercial and retail banking spread the risk and did not restrict competitiveness.

But no matter how it shakes out, we have to design reformed banks which are not only big enough to cope with the unexpected - without relying on taxpayer support, but can in the words of the deputy Governor of the Bank of England, "put capitalism back into the heart of capitalism". That means, yet again, competition and the freedom for individual institutions to fail.

7. Finally, proposed Government caps on immigration are a huge threat to the City and to wider UK business. We need to welcome skilled financial workers from the global pool of talent. They are the life blood of our international finance centre. We have more than 250 foreign banks in London and we are grateful for the vibrancy, the challenge, the competitiveness that they bring to London. We must do nothing to drive them away.

The net result of all of these threats is business uncertainty. Uncertainty  which  will harm the  UK and the EU as well. What the City needs is predictability, clarity and certainty from our politicians.

If we are not careful, this uncertainty **will lead** to global fragmentation and regulatory arbitrage. And I believe that - just as Hong Kong and Singapore are hot on the heels of London and New York as financial centres - the trend could be to favour Asia over the EU and the USA.

But as I said before, it does not have to be that way.

I now want to talk briefly about public anger.

In May this year, if you had visited St Paul's Church Garden in central London, you would have found the annual celebrations for the 348th birthday of the venerable Mr Punch, the anarchic anti-hero of Punch and Judy, with his very unappealing habits of beating his wife, dropping his baby on its head, and hammering authority in all its forms.

For the last 2 years, many Punch Professors have slightly updated the costume of one of their villains, to make him, not a policeman, not a judge, not a doctor -  but a banker. People in the audience were getting a lot of enjoyment out of the *innocent scene* of Punch with his stick, laying about a banker.

Children love Mr Punch, perhaps because they are always being told what to do; and they love him because they know what he's doing is naughty.

People have been understandably angry after the financial crisis. And there's no doubt that some of the City was to blame for risky and unsustainable behaviour. But we need to call time on the recriminations. Not because many of them were not well-deserved. Many of them were. Not because there's not a great deal of work to be done on making the City a better place. There is. We now need to call time on recriminations because we risk damaging the UK.

After all, the City is a major asset for the UK. It is the envy of the world. The financial industry directly employs over 1 million people across the UK, and provides useful tax revenues to boot.

Punch, in other words, needs to stop beating up the bankers and whacking his baby.

**Looking to the Future perfect: what would a perfect City look like?**

Last year the Chairman of the soon to be disbanded FSA, famously told us that he considered some parts of the financial services industry to be socially useless, and that having a large financial sector was not always a good thing. He said 'Not all financial innovation is valuable, not all trading plays a useful role, and that a bigger financial system is not necessarily a better one'.

**To answer what a perfect City would look like I am going to ask a series of questions.**

**Firstly, does the City have an ideal size?**

Today the financial services sector is worth approximately 8% of GDP.

Three years ago, if you suggested that there was an optimal size for the City you would have got a look of surprise from many people. The liberal view was that the size of markets would be determined by the participants, within the bounds of regulation.

Let's think about comparisons with other leading financial centres: in Singapore [[17]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftn17" \o ") , the financial services sector is 11.5% of GDP[[18]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftn18" \o "), and in Hong Kong, where it's 16%[[19]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftn19" \o "). Jersey's financial sector is worth approximately half its GDP.[[20]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftn20" \o ")

I am not sure we can claim there is an optimal size for the City, - as a percentage of GDP. The questions around how to size it are very uncertain indeed.

Do we want to be wholly dependent on one sector of the UK economy? - No, of course not.  Do we want a broad economy to spread risk, similar to how investor spreads risk? Of course we do.

The problem with the size of the City was simply that the last government failed to realise how dependent it had become on that cyclical sector for tax revenues, and failed to plan accordingly. Remember Gordon Brown's efforts to abolish boom and bust? And claims that he had succeeded several years before the financial crisis of 2008? Claims that were unrealistic to anyone familiar with the financial markets[[21]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftn21" \o "). It remains a cyclical sector.

Last year, UK financial services contributed 12.1% of the UK's total tax amounting to £61.4 bn. That's 142% of the interest costs of the current public sector debt. And that, in this climate, is useful.

And what would happen if the government decided the financial services industry was too large, how would the government address that? What specific legal and policy levers would it use? And how would it affect the rest of the United Kingdom? I would argue that financial services is not a substitute for manufacturing or other industries. We can have both. And I look again at the example of London where different industry clusters overlap and provide mutual support.

**Secondly, apart from tax revenue, do we benefit from having this large financial sector -  and on balance, will it be an asset into the future?**

I believe the real economy needs a strong financial services industry, serving the real economy by providing the loans, insurance products and savings accounts that people - and business - need to plan for the future.

If you only stop to think for a moment of a world without banks. It's inconceivable.

And financial development may be an essential precondition to economic growth. In a recent paper prepared for the World Bank, "Finance and Growth in the United Kingdom", by Forrest Capie and Geoffrey Wood, the writers argue that a financial revolution preceded the industrial revolution, at the end of the 1600s with the establishment of the Bank of England, and the stock exchange. Developed capital markets, they write, "allow firms to be bigger, and to also, should they wish, be more specialised"[[22]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftn22" \o ") The rise of financial intermediation came along with the real spurt in the growth of the economy - around 3% a year in the middle of the 19th century. All this suggests that without a strong, well developed financial system the UK's prospects for growth would dwindle; indeed, the paper concludes 'there can be no growth without the prior development of finance."

Having a strong international financial centre should help to connect the wider economy to the global financial community and attract investment and growth to London and to her citizens. That might include access to capital, money directed at innovation, and more jobs. Just one example of many:  a couple  of months ago the City Corporation hosted an event which brought Brazilian and UK Venture Capital investors together with UK University spin out companies.

The reason most financial services have evolved is to serve a financial need.

**So are there parts of the City that serve no useful purpose?**

What about  high frequency trading for example?  A computerised strategy analysing masses of market data, buying and selling securities in fractions of a second

High frequency trading now accounts for up to 70% of equity trading in the US. But far from being useless, it is in fact tremendously useful to financial institutions and investors and helps to create liquidity in the market.  Sometimes this does cause problems: the programmes make everyone do the same thing at the same time, and can thus produce sudden and large price swings, for example the 'Flash Crash' in May of this year, when  U.S. corporate stocks crashed nearly 1000 points - and then nearly recovered to their original level again in about 15 minutes[[23]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftn23" \o ").

Or how about complex credit derivatives, which were criticised as early as 2003 as potential "financial weapons of mass destruction"[[24]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftn24" \o ")" In the clean-up after the financial crisis, now that most derivatives are moving to standard contracts and to clearing houses providing transparency, any risks posed by them have been minimised.

And the fact is that outside the financial services industry, companies such as BAE Systems, National Grid, GSK, Air France and other international businesses  continue to want derivative products in order to spread risk[[25]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftn25" \o "). In fact, earlier this year more than 160 European non financial companies signed a letter saying they were against EU changes to derivatives legislation -  because they felt that it could increase the cost of hedging market risks and curb economic growth in the EU - as companies are required to ring fence money as collateral against the risk that they will default.

So derivatives serve the real economy.

**How will financial services be useful to us in the future?**

Opportunities include the low carbon green economy

One of the key reasons I am optimistic about the City's future, is that broadening the economy can't happen in isolation. One of the most heralded changes in the last few years is the "Green Industrial Revolution".[[26]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftn26" \o ") Climate change is happening, and we need to work towards a more sustainable future. It's something that the UK is well placed to capitalise upon. The UK is

already strong on innovation: we have the highest density of small high tech companies in Europe in the golden triangle between Oxford, Cambridge and London. We are second only to the US in terms of total output in science[[27]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftn27" \o "). We have a strong venture capital industry - which is critically important to channel investment to start up companies.[[28]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftn28" \o ") Our main drawback at present is that other countries including the US are better at funding new technologies at an early stage[[29]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftn29" \o "). In addition, we have a lower spend on R&D in the UK than the OECD average.[[30]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftn30" \o ")

We need to build on this.

We also have a growing specialism in low carbon finance, having pioneered a carbon emissions trading market here in London, which by putting a price on carbon, aims to encourage investment in alternative clean technology and energy[[31]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftn31" \o ").

We also need to build on opportunities in long term care and pensions.

The public sector pensions deficit as set out by the Office for National Statistics is just breathtaking. Let me run those figures by you once again: it is estimated that about half the national debt, £2 trillion, is the cost of the unfunded public sector and state pensions liability.

Late last year, the City of London Corporation published a report on this subject - available to download on our website[[32]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftn32" \o "). We believe that - alongside some austerity measures in the public sector, people are going to have to rely much more on the private sector. Institutional investors, pension funds and so on, invest in the City. Asset management is one of the City of London's key strengths. If any of us are to have a hope of retiring before we drop, we need a strong City to look after pensions and long term care - which, as final salary pension schemes close, is going to force a shift to private insurance.

**So what is the City's impact on society**?

I have spoken about the economic case for the City:- tax take, and direct job creation. Let's talk about the impact of the financial services industry outside the City.

Here in London and across the UK the City creates jobs through 'multiplier effects' This includes suppliers as well as the shops and services used by those employed in the City.  The evidence is pretty compelling that this employment multiplier exists.

**Is the measure of inequality, created by having an economically successful sector, a negative thing for society?** Or is that inequality created by the fact that London is an open, international city which welcomes residents from all over the world? In any society there will be people who do better than others. Is this a bad thing?

The authors of one recent book, very popular with politicians of all hues, think so.  "The Spirit Level: Why More Equal Societies Almost Always Do Better" is worth a very serious read.  And its authors, Richard Wilkinson and Kate Pickett, have found some sympathetic echoes in our new government, which is looking at income multiples in public sector pay, with a view to limiting them.

In the US, for example, in 1965 the ratio between CEO pay and average company employee pay was 24 to 1[[33]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftn33" \o "). Today it is close to 300 to 1.

Several writers have recently published critiques of the Spirit Level- but let's leave that debate aside[[34]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftn34" \o ").

I would argue that it may well be useful to restrict income differentials in the public sector, but that limiting private sector pay and changing its structure is a job for shareholders, who are indeed being encouraged to engage on difficult issues - for example, through the FRC's new stewardship code. And it is the job of responsible businesses and shareholders to ensure their pay structure works to the long term benefit of the business, not to the benefit of buccaneering CEOs. But again, since the financial crisis, the financial services industry has been rethinking the structure of corporate governance and pay, and I believe that we are on our way to a satisfactory resolution.

As evidenced perhaps by the FSA which recently introduced a new code of practice on pay policies relevant to all the firms it regulates. The FSA code encourages sound risk management - but is not interested in pay levels - in other words, it is looking at making the financial sector more sustainable.

**So should we see the financial crisis as an opportunity to take stock and move away from a growth economy**?

One of the central arguments of the Spirit Level and of the New Economics Foundation in their report, The Great Transition[[35]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftn35" \o "), is that we need to move away from an economy predicated on growth. This is an unusual argument, but I have to tell you, I think it is profoundly wrong.

Let's imagine a country with low growth: and with no disrespect to our European friend and neighbour, let's think about Portugal. It's a beautiful country with a great history, but today it has very low growth[[36]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftn36" \o "). Unemployment is relatively high at around 10%; the ratings agency Standard and Poors lowered its credit assessment to 'negative' late last year.

Would we want to see London go the way of Lisbon - and beyond? Economic growth is overwhelmingly correlated with improvements in a whole range of welfare measures including inequality measures. Without growth and innovation, what would we have left? A gently decaying, museum rich City,  a sort of Venice on Thames? Or worse, the wind howling and tumbleweeds rolling through an empty Square Mile and Canary Wharf. I don't think that is what people in this country want.

**Finally, are ethics in the City important?**

If the 1980s was the decade of 'Greed is Good' it was also the decade of protest, of political activism. But in the noughties - with the backdrop of the fall of communism in 1991, the so-called 'End of History[[37]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftn37" \o ")', the pursuit of profit, the rule of markets was virtually uncontested. Embraced enthusiastically even by the Labour Party, it seemed that markets were the new morality.

I want close by reading to you from a well known book

"I considered him my best customer; he was easily my favourite. He trusted me, I think, even though we had known each other for only four months. And here I was, selling him something I probably wouldn't touch with a bargepole if there hadn't been such glory in it for me. I knew it was awful. But I feel much worse about it now than I did at the time. After thinking it over for maybe a minute, he bought the 86 million dollars worth of Olympia & York" shares.

That is of course an extract from Michael Lewis's book, Liar's Poker, about working as a bond salesman at the investment bank Salomon Brothers in the 1980s. He's writing about making a sale in the interests of his business -a sale which will net Salomon Brothers about 2 million  dollars- but which is emphatically not an investment in the best interests of his customer.

This book is about Wall Street 25 years ago. It paints a rather ugly picture of short termism, greed and unethical behaviour. As Lewis writes, 'It was the job of people like me to make up reasons, to spin a plausible yarn. And it's amazing what people will believe.'

I think I can say that is not what any of us wants the City to look like.

We need to look very carefully at behaviour in the financial services industry, to look at how best to establish strong ethical behaviour so that people take action in the best interests of society - and not just the short term interests of temporary shareholders. This has been one of the recurring themes of my year in office: last month Stephen Green, Chairman of HSBC, spoke here about values creating value; and on October 4 I will be holding another event here called "Trust in the City: beyond Law and Regulation," about how the financial services industry relates to wider society. I strongly believe that we can approach that future perfect the City is striving for: the ideal fusion of good old fashioned values of honesty, fair dealing, and ethical behaviour and modern transparent business practise.

In Conclusion: I have tried this evening to take some of the critical issues facing the City and examine whether the City has had it - or whether we can move forward towards a 'Future Perfect'.

A strong financial services industry can and should benefit us all. It is my hope that the City of London Corporation and the Mayoralty will work to help the City reach the real economy and that it will help to solve some of the most  pressing issues of our time: from climate change to an aging population.

Sometimes the media offers us a rather enticing vision of the future City: here is the solution, they tell us excitedly: break up the banks, make the financial sector smaller, put a Robin Hood tax on them until they reform! Unfortunately, the world is far too complicated for just one solution to the very complex problems posed by the 21st century international financial system.

I am an optimist, and I strongly believe that - while the City may never become 'Perfect', - because of human nature - that if we work with our government on a climate of predictability, stability and clarity for business, we will be well placed to continue to serve the UK economy - and even the European economy - as a leading international financial centre well into the future.

After all the success of the City of London has only been achieved over the centuries by responding to the economic, political and regulatory changes that are the City's constant challenge. I believe that the City has a bright future.

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[[1]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftnref1" \o ") At Centre for the Study of Financial Innovation

[[2]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftnref2" \o ") investor and co-founder of the Quantum Fund with George Soros

[[3]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftnref3" \o ") Investors' Chronicle 17 Nov 2010

[[4]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftnref4" \o ") managing director of specialist taxation and accounting practice Frank Hirth, reported in The Telegraph, 13 December 2009 http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/6804225/Alistair-Darlings-banking-bonus-tax-is-pushing-City-to-tipping-point.html

[[5]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftnref5" \o ") Quoted  by Michael Mainelli in his speech on What Makes A Successful Global Financial Centre? 14/10/2009, Gresham College, from http://7thspace.com/headlines/321747/speech\_by\_psfs\_at\_hk\_investment\_funds\_association\_3rd\_annual\_conference.html

[[6]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftnref6" \o ") **Millenarianism** (also **millenarism**) is the belief by a religious, social, or political group or movement in a coming major transformation of society, after which all things will be changed

[[7]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftnref7" \o ")Lovelock, James "The Revenge of Gaia" 2007, p7. Lovelock believes that climate change will send us over the edge within 20-30 years.

[[8]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftnref8" \o ") October 2009 - looks at 55 different economies

[[9]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftnref9" \o ") The Independent, Wednesday 14 July 2010 Britain's Debt: The Untold Story?

[[10]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftnref10" \o ")The ONS itemised the public sector's main liabilities as:

\* Future payments for the state old age pension: £1.1trn to £1.4trn

\* Unfunded public sector pensions for teachers, NHS staff and civil servants: £770bn to £1.2trn

\* Payments under private finance initiative contracts: £200bn

\* Contingent liabilities (eg bank deposit guarantees): £500bn

\* Nuclear power plant decommissioning: £45bn

\* Impact of financial sector interventions: £1trn to £1.5trn

Leaving aside the possibility of another financial meltdown that would leave the taxpayer with the liabilities of a substantial part of the banking system, the figures suggest that the realistic total liabilities of the public sector could be as much as £3.8trn (£3,800,000,000,000).

The ONS says that although much work remains to be done in constructing a comprehensive public sector "balance sheet" of assets and liabilities, it is clear that the current figure usually quoted - "public sector net debt", colloquially called "the national debt" - is "selective" and incomplete.

[[11]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftnref11" \o ") In research published alongside the ONS data, the National Institute of Economic and Social Research (NIESR) said that current taxpayers ought to be paying around 30 per cent more in tax to relieve future generations of that "unfair" burden. That also takes account of the additional health needs of the baby boomers as they reach their autumn years.

Failure to cut back now or raise taxes - and there is little sign of the population clamouring to make life easier for the as-yet-unborn - will leave future taxpayers with an additional burden of £200,000 each over their lifetimes to pay for the public services enjoyed by this and previous generations. Even with current plans to reduce the deficit, the tax bill would still be as high as £150,000 over the life of someone born in 2011.

[[12]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftnref12" \o ") http://www.telegraph.co.uk/finance/financetopics/budget/7510939/Budget-2010-key-points.html

[[13]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftnref13" \o ") Telegraph, 15 July 2010 OECD urges Britain to drop 50p tax rate for top earners; http://www.oecd.org/dataoecd/57/11/45642018.pdf

[[14]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftnref14" \o ") September 2009 Mansion House speech.

[[15]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftnref15" \o ") http://business.timesonline.co.uk/tol/business/industry\_sectors/banking\_and\_finance/article7149363.ece

[[16]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftnref16" \o ") Is Glass Steeagall a Guide for Today, Eugene N White, Rutgers University

[[17]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftnref17" \o ") https://www.cia.gov/library/publications/the-world-factbook/geos/je.html

[[18]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftnref18" \o ") 2009, from <http://www.singstat.gov.sg/pubn/reference/mdsjun10.pdf>

[[19]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftnref19" \o ")  In 2006, the financial services sector employed 186,000 staff, accounting for 5.5% of Hong Kong's total employment and contributed close to 16% of Hong Kong's GDP. From Invest Hong Kong (the UKTI equivalent) - http://www.investhk.gov.hk/default\_bodies/sectors/en\_sectors\_financial01.html

[[20]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftnref20" \o ")In 2005 the finance sector accounted for about 50% of the island's output. https://www.cia.gov/library/publications/the-world-factbook/geos/je.html

[[21]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftnref21" \o ") http://www.channel4.com/news/articles/politics/domestic\_politics/factcheck+no+more+boom+and+bust/2564157

[[22]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftnref22" \o ") p6 Finance and Growth in the United Kingdom

[[23]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftnref23" \o ") http://theweek.com/article/index/202769/the-dow-jones-flash-crash-5-theories

[[24]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftnref24" \o ") Warren Buffett 2003

[[25]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftnref25" \o ") Letter organised by The European Association of Corporate Treasurers, which represents treasury and finance staff at companies in 19 European countries, dated 6 Jan 2010 - includes BAE Systems PLC, Air France KLM and Daimler AG.

[[26]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftnref26" \o ") http://www.oecd.org/dataoecd/57/11/45642018.pdf

[[27]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftnref27" \o ") in terms of publications, citations and prizes won;  by research papers published alone, UK is behind US, Japan and China http://www.oecd.org/dataoecd/57/11/45642018.pdf

[[28]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftnref28" \o ") UK attracted 13% of OECD venture capital investment in 2008 - but recent trend is downward.

[[29]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftnref29" \o ")  There is a funding gap in the UK and EU, with investors after financial crisis preferring to place their money in more commercially mature products. Though investment in Europe - clean tech venture capital, rose in the final quarter of 2009 by 61%.

[[30]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftnref30" \o ") http://www.oecd.org/dataoecd/57/11/45642018.pdf; . - (just 1.9% of GDP in 2008, compared to 2.3%

[[31]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftnref31" \o ") Currently just £14/ tonne, Point Carbon, July 2010; the European Climate Exchange based in London trades some 95% of the EU ETS. (emissions trading scheme); the London Accord is a good example of City engagement with the issues around investment in cleantech.; http://www.london-accord.co.uk/

[[32]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftnref32" \o ") http://www.cityoflondon.gov.uk/Corporation/LGNL\_Services/Business/Business\_support\_and\_advice/Economic\_information\_and\_analysis/Research\_publications/Special\_interest\_papers.htm

[[33]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftnref33" \o ") Lawrence Mishel's study "The State of Working America 2005, 2006"

[[34]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftnref34" \o ") Peter Saunders, author of the Policy Exchange report Beware False Prophets: Equality, the Good Society and The Spirit Level and Christopher Snowden, author of The Spirit Level Delusion.

[[35]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftnref35" \o ") http://www.neweconomics.org/publications/great-transition

[[36]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftnref36" \o ") In 2009, -3.3% (2009 est.)

[[37]](http://www.gresham.ac.uk/event.asp?PageId=45&EventId=1069" \l "_ftnref37" \o ") Francis Fukuyama  "The End of History" 1989