Funding the Future

Another City is possibleÂ

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I took part in an event at The Barbican in the City of London this afternoon. This is pretty much what I had to say:

Another City is possible

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We have fifteen minutes together. It's not long. And I want to use them as creatively as possible.

In my world that usually means I write something.

We can't do that together.

But we can partake in what I do whenever I write. I set out to imagine a better world is possible. That I suggest is what we should do together.

What we're going to imagine is a new role for the City of London.

We're in a good place to do it. We're here in its cultural home at the Barbican

I have known this City for almost 40 years. I started working here in 1979.

Superficially it has always seemed to me that this place beats to the rhythm of money. It seems to be pounds, euros, dollars and yen that flow through its veins.

And let's be clear: that is true. This is the biggest financial centre in Europe. And it has been for a very long time.

But I want to put my first idea to you. Money may appear to be what the City is about. But appearances can be deceptive. I'd suggest to you that the City is about something more important. For most of its history I think the City has really been about something much more important than money. It has been about putting resources to best use.

What resources?

People.

Raw materials.

Physical capital.

Intellectual capital.

And the combination of them.

Ideas, if you like.

Personally, I like to think of the City that way.

Because I think achieving that goal of putting the right resources together is vital in a good society.

If that is what the City has been about I'm going to summarise my first idea: perhaps a little controversially I am going to suggest to you that the City of London has in its past been a really good thing by making good things happen.

Second, I'm going to explain how it achieved that. This is easy. It did it by using money.

Its money.

Other people's money.

And the money its bankers have been able to create out of thin air since they first realised that people would accept their promise to pay, printed on cash and cheques and now implicit in our electronic account balances, as if it was money, which it is.

For centuries the City's banks did this by matching lenders and borrowers. When money was in short supply because it was backed by gold that is what they had to do. This was how, in the end, the UK got hold of its short term money. Banks lent it.

At the same time the City's capital markets — and most especially its Stock Exchange - helped raise money to be the risk capital that businesses relied on. That is share capital. And by doing so it made sure that businesses could access long term savings to which businesses then acted as stewards, seeking to use them to create wealth in our private sector businesses.

Of course I am simplifying things. But not grossly. The City served society. If it earned well, even excessively on occasion as a result, it was tolerated. It was easy to see that the City was a fairly honest broker. It sought to serve society as it saw best.

Sometimes society did not like it. The church was always a bit sniffy about lending money for interest — usury as the Bible calls it.

And sometimes the profit motive looked a little too like trade, which the elite was not too keen to associate with.

But from the Age of Enlightenment onwards big ideas were not the sole prerogative of the Crown. And to make them work someone had to assemble the resources. The City did that.

So, to summarise my second idea, I'll suggest that the City putting together the resources to make things happen was itself a good thing.

So let me, thirdly, tell you why it all went wrong.

In 1971 the USA came off what was called the gold standard. The dollar no longer had a fixed exchange rate to gold. And because in 1971 almost every other currency — including the pound — had a fixed exchange rate to the dollar, we all came off the gold standard as well.

No one really understood what that meant at the time. The world went into partial economic meltdown as a result in the 1970s.

When that meltdown ended we had the economics of Thatcher and Reagan crossing the Atlantic and dominant in the City of London.

And this was when a great deal went wrong. Because what those politicians and the City realised was that in the world after gold banks could create almost unlimited amounts of money simply on the basis of their ability to promise to pay.

And banks did that.

And Thatcher gave them the means to do so.

In 1979 she liberated money to move to tax havens at will.

In 1986 she delivered the Big Bang that broke down most of the institutions that had meant the City's word was its bond.

By 1988 people were being forced from the state pension into private pension arrangements.

Limits on mortgage lending were relaxed. House prices sky-rocketed.

Privatisation was meant to spread share ownership and dealing. It didn't. But it delivered large gains to a few that had previously belonged to everyone.

But these were the symptoms. More important was that what Thatcher, Reagan and neoliberal economics did was say that making money out of money was just fine.

A long time ago Aristotle challenged that idea.

So did the Old Testament profits.

And Islam still does.

And I have to tell you that the critics were right. Making money out of money is a terrible idea.

It encourages greed.

It promotes recklessness.

Excessive debt follows.

As does over-consumption.

And corruption. Tax abuse is as old as writing. It was recorded in ancient Babylon. But it's never existed before on the scale it has from the 1980s onwards.

And we got asset bubbles as a result.

Housing and the stock market in 1988.

The dot.com bubble in 2000.

The debt crisis of 2008.

And, dare I say it, a second global debt crisis is coming our way sometime soon.

Making reckless amounts of debt out of undeliverable promises to pay is what characterises modern banking.

So this is the summary of my third idea. The City's focus on making money out of nothing more than money has been a terrible idea.

And we can see that.

Households now borrow more than they save in this country. And that is unsustainable.

Households, unlike countries, can max out the credit card.

There is a shortage of housing.

British manufacturing has collapsed.

Many people have not seen a pay increase for as long as they can recall.

Job security is a memory.

As are decent pensions.

Whilst our public infrastructure is literally potholed.

And as the world has realised the scale of the environmental crisis we face we have done far too little, too late, to address the issue.

So I come to my fourth idea. My big idea. The one where I ask you to imagine.

Suppose we could harness all that talent in the City to do what it should be doing for society, and not for the sake of making money out of society? Is that possible? What would the City do? And how would we benefit?

Let's begin with what should the City do. My suggestion is simple. It is that over the coming years the City has to take on a new role. But not an unfamiliar one. The City has to, once again, become the place that matches up the resources in society to make sure that they are used to best effect.

What does that mean?

It means that the City has to deliver the funds for the society we are not but must become.

It has to think long term.

It has to think in terms of people and what they want again.

And that means serving us all.

By matching savers with those who want to borrow for affordable homes, as building societies once did, before they became banks.

By raising the risk capital for innovation in green technology.

By assisting government in building the sustainable infrastructure we need for a world beyond carbon.

By using its skills to help innovate the tax reforms that might make this happen.

By creating safe, secure, pensions that people can rely on.

By holding capital to account for what it does — which my own profession of chartered accountancy has so clearly forgotten to do.

By rooting out the corruption that has become too prevalent.

By ending support for tax havens whose main job is to undermine society, democracy and the rule of law.

And it can do this if it realises we all — and not just those with money — are its stakeholders — and the City becomes beholden to us all.

If it thinks long term again, as once it did.

But why will this change happen? I confess I don’t think it will be entirely voluntary. I have spent too long facing the City to think its vested interests will give up without a fight. Unless they are ‘down’ that is.

And they will be down again. I think it is inevitable that there will be another global financial crisis. It’s a decade since the last one, and as even the Financial Times is noting, what is so strange is how little has changed as a result.

Next time it really has to be different.

Next time we must not let the City arise from the ashes as it was again.

Next time we must have a new City.

A Green City.

A City for the future.

A City for people.

A City that puts its undoubted talents to use.

A City that serves society instead of leeching from it.

A City that thinks how capital can serve our sustainable economy.

A City of which we can be proud.

That, then is my fourth idea.

Can you imagine that?

Can you imagine the sheer energy of this place that surrounds us if released for the common good?

That is what I came here this afternoon to ask you to do.

I sincerely hope you can.

Because I believe that is the City we can have.

And more than that.

I also believe that is a City we are going to need.

For the sake of our commonwealth.

Which is, quite literally, our future.