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The UK's CBI claims the London Stock Exchange is in crisis because of tax and regulation. But that's nonsense. The real issue? London's stock market has stopped funding business growth. It's now a playground for speculators, failing our economy, our pensions, and our future. In this video I explain why tax cuts won't save it — and what real reform would look like.

https://www.youtube.com/watch?v=WQqtxLkWVkI?si=7c0O56Reith-NcG0

This is the audio version:

https://www.podbean.com/player-v2/?i=ha9pu-1908ebc-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=auto&logo_link=episode_page&btn-skin=c73a3a

This is the transcript:

The UK's CBI, the Confederation of British Industry, says that the London Stock Exchange is in crisis, and it's blaming tax and regulation for this and is demanding that they be relaxed so that the London Stock Exchange rides high again, but the truth is that they're telling a load of old nonsense. The Stock Exchange long ago ceased to work in the way it was meant to, and so let's explore why the London Stock Exchange is really failing, and what that means for the UK.

The CBI is panicking about the London Stock Exchange, and the reason why is that fewer companies are choosing to list their shares on that stock exchange. What that means is that the shares are traded there. Instead, they are choosing to list on overseas markets. They are, for example, having their shares traded in the USA, but some are looking to other markets as well.

And the CBI is panicking about companies that are already in London looking to leave because they might find other markets more attractive. In particular, AstraZeneca is threatening to leave the UK, although no doubt there's a little bit of posturing going on here, and some advantages are being sought.

But the fact is that the claim that this is down to tax and short-term regulation doesn't stack. The real reason why the UK stock market is failing is it doesn't function as a stock market should.

If it worked properly, the UK stock market would be funding companies in the UK to invest, but that ceased a long time ago.

Almost nobody uses the UK stock market to now raise funds for investment.

If they did, the UK would not be lagging in investment, and it is; the UK would not have a productivity crisis, but it has; British business would be well funded, but it isn't, and we would have secure pensions in the UK, but we don't, and all of that is because the core underlying structure of the UK economy doesn't want to fund business, and therefore the core model of the London Stock Exchange has, in effect, failed.

The London Stock Exchange long ago ceased to provide funding for investment in growth. In fact, it's more common these days for a company to buy back its own shares than for a company to try to issue new shares to shareholders. This is quite literally, in many ways, a shrinking market, and how can a shrinking market ever work?

So we have got a real problem in the UK economy, and fundamentally, the reason for that is that the UK economy is now focused on financial engineering, and not on actual productive engineering. This is the core of the problem.

The whole of the London stock market is geared around meeting the needs to produce the financial engineering environment which can be exploited by London lawyers, London accountants, British tax havens, and people in UK banks who want to trade in our shares for short-term advantage.

The point is, these people exist to manipulate markets, but they do not care about the underlying profits made by the companies in whose shares they're trading. Companies might list, but they actually aren't put onto the stock market to get new funding to produce growth. Instead, they're there to provide an exit route, in too many cases, for their founders, or to allow for manipulation in their share price with directors, bonus schemes being linked to that objective, therefore accumulating the wealth of the already wealthy directors of these companies.

That is what the London stock market is all about, and along the way, it runs a gambling den; a place where literally traders take advantage of minor movements in price to make profit at cost to everybody else, including our pension funds.

So we have real problems because the stock market is, in fact, now focused, like everything else in the UK economy, on quick returns and not long-term investment, which is what it should be all about. The result is that business innovation suffers. And we've seen that, as already explained. We have low investment, low productivity, poor returns, and the London Stock Exchange long ago failed to signal that this was the primary problem that it was facing.

If markets in the UK worked, then everything else would, but the fact is that markets don't work because fundamentally, underlying the stagnation of the UK economy is the 'pile it high, sell it cheap and get out of here as fast as possible' mentality, which is seen in our quoted companies who will sell out to whoever comes along and knocks on the door with a reasonable offer at the first possible opportunity.

The consequence is, the market is quite literally a sales point for those who want to get out of the UK economy, not those who want to get into it, and unsurprisingly, UK pension funds have noticed that, and they have been pulling their investments out of the UK market as a result because if they are interested in long-term value, and that is the whole point of pension funds, then they aren't finding it here.

So, let's come down to the fact that actually what we are looking at is a situation where stock markets are simply existing to trade ownership, but they aren't existing to build businesses. The myth of the stock market has been shattered, and nothing that the London Stock Exchange can do at present will do anything about that, nor will changes in state regulation and taxation do anything to address this problem either. The problem is existential, or systemic; it's actually literally the way in which the UK stock market is structured, and we can't change that by a little tinkering at the edges.

The CBI, the Confederation of British Industry , is exposing its own double standards by demanding change. What it claims, most of the time, is that it hates state intervention in markets, and yet here we are with it demanding that there must, in effect, be a bailout for the London Stock Exchange by relaxing regulation and tax so that the market can be boosted to keep money in London.

That is, in my opinion, first-rate hypocrisy because the real problem is that London, and its stock market, has not given anybody a reason to put money in London because the mentality of the City of London has failed the UK because it has failed to deliver investment.

And we should not be asking the government to subsidise that failure. This would not be in the UK national interest.

Nor would it meet the long-term business needs of the UK economy because the long-term business needs of the UK economy are for long-term investment, which is not what the stock exchange is now geared to provide. The only thing that the CBI is calling for is yet another bung to be given to markets and the narrow wealthy elite who control them.

That's why it resists real reform of markets, and that's why we should ignore its demands.

Until the stock market provides funds to business for long-term growth and until it can provide pension funds with a genuinely prosperous place in which to place money for long-term benefit, and until it can help end the hollowed-out economy we have, there is absolutely no reason for the state to support the London Stock Exchange. It may be that its time has passed.

What we actually need are fundamental reforms of financial markets, and Rachel Reeves is not promising these in her Mansion House Reforms.

What we actually need is money going into productive investment and not speculation, but she's encouraging speculation and not investment, and what we actually need are an alignment of fundamental tax regulation and pension reforms to ensure that money from pension funds goes, via regulated contributions, towards the creation of those investments that we need to create long-term value for the benefit of people in the UK.

None of that is on anyone's agenda, including the CBIs, and as a result, the London Stock Exchange is going to continue to fail us all.

Taking further action

If you want to write a letter to your MP on the issues raised in this blog post, there is a ChatGPT prompt to assist you in doing so, with full instructions, **here.**

One word of warning, though: please do make sure you have got the correct MP. ChatGPT can get it wrong.