

Lecture for Finanzethikon, Zurich

26 October 2012

Repair or Replace: Where do we start among the ruins?

Between 2002 and 2007 I worked in Coventry, involved in leading Coventry Cathedral's ministry of reconciliation around the world, working mostly in areas of severe civil conflict. [SLIDE 2] Coventry Cathedral was bombed on November 14th, 1940, and, together with much of the city, was destroyed. On the morning after the bombing the Provost of the Cathedral, standing behind the ruined high altar, wrote the words 'Father forgive' on the wall with a piece of burnt wood that had fallen from the roof. From that moment of visionary inspiration, sprang a movement of reconciliation which was of central importance in contributing to Anglo German peace after World War II, and indeed has spread to more than 180 centres around the world today.

I start with that story because it is literally one of ruins. The ruins of the old Cathedral still stand, speaking of the horror of war. Next to it is the most extraordinary 20th century building, with some of the finest art and design that could be found anywhere in the world in the 1950s. It is a remarkable place. What is most remarkable is not the art and architecture, but the vision that went from disaster to hope and creativity.

The reality of a genuine war, with the horrendous cost to civilians and military alike, the appalling human suffering and the degradation of the human spirit, may seem far removed from the financial markets, but in 2008 the crash that reverberated around the world brought into ruins the elaborately constructed financial architecture which had existed since since the re founding of the Euro finance markets in the 1960s. With that crash was brought down the capacity for some months to finance trade, and what was also brought down was the sense of confidence that the financial markets were so sophisticated that the events of the 1930s could never be repeated.

In terms of where we go from that crash, it is still unclear what solutions will be arrived at.

In my work as a Bishop, sitting in the Upper House of the UK parliament, the House of Lords, I have found myself for one reason or another a member of the Banking Standards Commission (BSC). This was set up last June in order to investigate the culture and performance of banking in the United Kingdom and to make recommendations for the new banking act that will be brought before parliament next year. It is in fact the latest in a series of full scale reviews of banking and as such is seen by most people as useless and by some as hopeful.

The Provost of Coventry Cathedral, surrounded by ruins, could easily have been understood if he had succumbed to anger or despair. Instead he looked for something creative. The task of all those involved in the supervision, the legislation for, and participation in the financial

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markets is to find that once in a generation leap of imagination that does not simply seek to repair what was destroyed in 2008, but to replace it with something that is of lasting value. Repair would be as inadequate a solution as beginning to put the stones of Coventry Cathedral back one on top of each other, to try and recreate what had been obliterated.

In the case of the financial markets and infrastructure of the world, what has been obliterated is not physical, plant, property and equipment, but confidence. There is no longer confidence in banks as safe, in banks as virtuous, or in bankers as being part of the same world as the rest of us and with the same values and desires as the rest of us. That loss of confidence may be unfair, in many cases I would argue that it is, but it is a reality.

In the BSC, we have been receiving very large quantities of evidence, both verbal and written. Last week Paul Volcker gave evidence in person. Most of the evidence has been about that confidence, and most of the solutions have varied between two poles. First, evidence from the banking community has said effectively, "this was an unfortunate moment of carelessness, we are very sorry, but let's keep going forward and pretend that it didn't really happen, or at least it was not as nasty as it seemed at the time". The other evidence has come from civil society groups and could perhaps best be summed up with the French expression of 1789 "À la lanterne". There is an old English nursery rhyme that goes like this, [SLIDE 3] "Humpty Dumpty sat on a wall, Humpty Dumpty had a great fall, all the king's horses and all the king's men could not put Humpty together again". The main contention I am making in this presentation is that too much effort is going into putting Humpty back together again, and it can't happen. So:

Activity without purpose is anarchy. It may not look like anarchy, it may in fact be very well organised anarchy but unless it has a serious and clear purpose activity is merely random. One of the biggest faults in the pre 2008 financial markets was essentially they were exponents of anarchy in this sense. They involved wild and frantic activity, often by exceptionally intelligent people, working very long hours, but they had no socially useful [SLIDE 4] purpose. The industry was referred to as financial services, but in fact it served nothing. In the UK, where most of it was housed, SME's still struggled to find finance, although they were based within close reach of the largest financial centre in the world. Martin Wolf, the Financial Times columnist, said in 2009 that the UK suffered from having a "mono crop economy". By that he meant, that like Nigeria with oil the UK had finance. Far from being the goose that laid the golden egg, it was in fact the cuckoo in the nest that pushed all the other fledgling industries out to die. The same can be said of much finance in other places around the world. Certainly, it was true of the hedge fund industry in the United

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States, and of much dealing activity across Europe and in the Far East. Finance had become a feature of its own, rather than anything with intrinsic value.

The question I think we therefore need to ask is, 'what can finance do to be socially useful'? In the same way as in the ruins of Coventry Cathedral were turned from a hideous symbol of destruction to a symbol of hope of resurrection, of peace and a new form of civilisation, so finance can move from being the wreckage of a hubris induced disaster, to retrieving its basic purpose of enabling human society to flourish effectively. To put it in one sentence, there is a need for socially useful purposes for banking and financial services.

[SLIDE 5] I believe that one of those is to harness the power of finance as something which crosses boundaries. John Paul II defined a company as "a community of persons in service". Financial services have huge potential as vehicles of the common good in order to unit increasingly autonomous and disparate societies.

Let me give you an example, in the northwest of England, where I worked until a year ago, between Everton in north Liverpool and Formby 12 miles away, the difference in average life expectancy is 15 years. Much the same is true between parts of Gateshead, in my present diocese in the northeast of England, and parts of Northumbria, perhaps 25 miles away. They are two different worlds.

Last week I was in Nigeria, working on issues of mediation and reconciliation. I spent the week travelling around the country, visiting people I knew well, and trying to put together various projects. Whether I succeeded or not time will tell, that is a different question. What I do know is that I sat down to lunch one day with a multimillionaire, in a club in Lagos in great comfort and luxury, and within 24 hours was walking through conditions of as extreme poverty that one can find anywhere in Africa. And Nigeria of course has natural resources.

What brings these different countries, or parts of countries, or lives together? One thing is the common use of finance for domestic life, for starting small businesses or micro businesses, up to the development of multi-national companies and the training of people to develop new countries in a way that will bring employment and peace to their populations. So the first question I want to put, or challenge to make, is what can be done in the financial markets to bring them back to being tools for human flourishing and development, and for uniting deeply divided societies and parts of societies?

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Let me give you another example and then move on finally, to some very brief suggestions.

The UK has one of the most concentrated and uncompetitive sectors, as regards domestic banking in Europe. Almost all banking in the UK is run from London, and there are very few competitors to the major banks and financial institutions. This means that huge gaps in the market are easily exploited. This slide shows the approximate interest rates for one week and one year of four types of lenders. [SLIDE 6]

The very few credit unions that exist take deposits locally and lend locally. They are essentially forms of domestic finance and community finance. In Ireland 70% of people belong to credit unions, in the US 40%, in the UK 1% and in most of Europe not more than 7%. Their total cost of credit is unlikely to be more than between 35% and 50% per annum.

Above them you have the door to door finance companies, and they will lend at an annual rate of around about 80 – 100%.

Above them there is the highest cost legal lender, the web based companies called pay-day lenders, where if you borrow a £100.00 and repay it a week later you will normally repay about £160.00 and its effective annual interest rate is round about 2,400%. And above them there are the illegal loan sharks, to whom many people.

Our banking culture and structure has thus not only socialised losses and privatised profits, it has concentrated banking only where transactions provide large rewards to the banks and ignored areas where relationships are needed to unite communities and help lift them out of poverty.

[SLIDE 7] I do not think mere regulation is the answer. Andrew Haldane, a Deputy Governor of the Bank of England, in a recent lecture (The Dog and the Boomerang), argued powerfully against regulation as being only a negative, and an inefficient one at that.

Banks and financial services generally need a culture of service, of care for the poor and refusal of injustice. We need to build from the ruins something that looks as if it helps people rather than being there for people to help it.

It is perfectly possible for an approach to be made that incentivises financial services serving people and drawing people together, going back to their original purpose of re-circulating surplus savings to areas where investment was needed. It is essential to continue the process of separating investment banking from the more routine, utility banking. In some countries, such as Germany this has worked well but in the Anglo Saxon economies it has failed

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disastrously. That may be part of different cultures in banking in different countries. But I would suggest three or four things that we could do that would have a major impact on financial services. [SLIDE 8]

- Government support should be limited only to those banks and financial institutions that have a clear and explicit social value. At the same time they must be allowed to fail, the process of defining resolution is if anything more important than defining regulation.
- There must be formal banking qualifications which are required for anyone involved in investment or commercial banking who is dealing in more than minimal amounts of money.
- Banks that demonstrate social purpose could receive an easier tax regime and a lighter regulatory touch. [SLIDE 9] The reverse could be true for those who do not fit these principles.

At the moment clearly these are merely ideas in the mist. But one principle seems to me to be clear, we cannot repair what was destroyed in 2008, we can only replace it with something that is dedicated to the support of human society, to the common good and to solidarity. Financial services are crucial to human development, but they only do their job when the work they carry out is done in a way that is truly a service.