

**Money: a Crisis of Value**

**Tuesday 6<sup>th</sup> October 2009**

**Panel Discussion, St Paul's Cathedral**

**Transcript**

**Draft Copy (contents may be amended)**

**PANELLISTS**

**Catherine Cowley**, Lecturer in Christian Ethics, Heythrop College

**Andrew Dilnot**, economist and Pro-Vice-Chancellor, Oxford University

**Paul Tucker**, Deputy Governor, Bank of England

**John Micklethwait**, Editor-in-Chief of *The Economist*

**Chaired by Richard Chartres**, Bishop of London

**Introduced by Graeme Knowles**, Dean of St Paul's Cathedral

**Dean:** Good evening ladies and gentleman, the most difficult part of any evening is finding the chair you are supposed to be sitting in – and we've just proved that. We were supposed to come in in the right order but between the gate and here something went wrong, but it's lovely to see you all here under the dome of St Paul's. On behalf of the Chapter, I welcome you. My name is Graeme Knowles, I am the Dean of St Paul's and the guy who is supposed to be in charge. You can decide that by the end of the evening really. It's really good to welcome you here to this first of our public debates – Money, Integrity, Wellbeing. This course of debates was planned well before any crisis that came upon us and so therefore it's really rather good that we are here to discuss this very important matter which touches each of us very particularly.

As far as I'm concerned, this is all I need to do. I need just to welcome you warmly and the Bishop of London, who is the gentleman in the middle wearing the purple shirt, is in fact chairing this evening's debate. So it is with great pleasure that I pass over to him.

**Bishop of London:** Mr Dean, thank you very much indeed. Thank you. In a moment I will introduce our panel, but for those of you who have not been to one of our St Paul's debates before will you

forgive me if I explain a little about the format. I'm going to ask each of our panellists an opening question, and they will have about five minutes to respond, and then we will move into a discussion. Then for the last part of the evening we will take questions from you, and if you have a question please write it on the back of your leaflet – hold it up to be collected – and we will collect questions until about twenty past seven and then they will be addressed to the members of the panel. The contract is that we end promptly at eight, but before you leave do please visit the bookstall at the back and if you are able to give generously to the retiring collection. It will go to the City of London Social Investment fund, and I see George Bush among us this evening. He is the vicar of St Mary-le-Bow, and that's where that fund which is seeking to raise a million pounds for microfinance projects in Mozambique and Tanzania is based. There are more details in your programme. You have been given a Gift-Aid envelope and if it's appropriate please fill that in and put your donation in it. There is more information also about this evening and further events in your programme, and if you would like to find out more about the series – and we really have assembled the most extraordinary star-studded cast – please fill in the form in the leaflet. Hand it in at the retiring collection and we will certainly be in touch with you.

I'd also like to take this opportunity to thank the Hong Kong and Shanghai Bank Corporation (HSBC) for their generous sponsorship of the whole program.

Without more ado, may I introduce our panel. Paul Tucker, on my far right, is Deputy Governor of the Bank of England. He is in charge of financial stability functions, and he is a member of the monetary policy committee. Catherine Cowley has worked professionally in the finance sector, but then she heard a call to the religious life – she is a nun – and also teaches Christian ethics in the University of London. She is the author of *The Value of Money: Morality and the World of Finance*. Andrew Dilnot is the Pro-Vice-Chancellor of Oxford University. He is a leading economist, he was for ten years the Director of the Institute for Fiscal Studies and many of you will know his voice from his time presenting the Radio 4 series *More or Less*; which aims to decode the mysterious world of numbers for the innumerate and the fearful. Finally, John Micklethwait is the Editor-in-Chief of *The Economist* – a publication which he has served since 1987. His books include *A Future Perfect: The Challenge and the Hidden Promise of Globalisation* and his most recent publication is *God is Back: How the Global Rise of Faith is Changing the World*.

Would you kind enough to welcome our panel?

[Applause]

Now, the opening questions. Paul Tucker, I think I am right in saying that in 1971 President Nixon finally broke any kind of link between gold and the dollar. So my question to you is, what gives money value? In what sense is money an act of faith?

**Paul Tucker:** Thank you very much, and thank you very much to the Institute inviting me here this evening. This is a real treat and it's going to be a very interesting evening for us up here as well as, I hope, for all of you. Does the value of money derive from faith? Well, probably not quite but not far away either and it is something we don't talk very much about. It's certainly derived from trust and confidence, and if there is one great lesson from this awful crisis that we've experienced over the past few years it's to get back to the values of trust and confidence. This is tangible in our everyday lives, in a most basic sense the money that we carry around in our pockets it matters to us all enormously that it somehow holds its value in terms of the goods and services that we buy and form the fabric of our life. At the Bank of England that's what we call trying to produce price stability, trying to maintain low inflation, and that is not what this crisis is all about. It's been about another kind of money, the money that we all hold in banks – our deposits – and for that money to serve its function, both as wealth and as a means of making payments, this is absolutely at the fabric of our lives and it is important that we have trust in our banks and trust in our financial system. During this crisis, that eroded. The public lost trust in our banks and, perhaps even more to the point, the banks lost trust in each other and this was utterly corrosive and we didn't just see confidence ebb away slowly – but eventually at one point disappear into a vortex.

I think this turns to a question about what should frame and maintain the trust in these vital institutions. In today's society largely we approach these things through rules, and we'll know – whether in the general public, or in the official sector or in the sector commenting – we know that we're not going to write a perfect set of rules. So, we also have procedures and processes for changing those rules; from parliament downwards. In a society in which perhaps trust plays a smaller role than it did fifty years ago, the integrity of those rules and processes matters a lot. But it can never be enough, because if it's correct that we will not write a perfect set of rules – and we didn't in the past and we won't in the future – then there needs to be some other constraint, something that is to do with values in a more basic sense. A world in which people, whether it be bankers or officials, say 'this is a bit too much, this is getting a bit out of control' and having sufficiently invested in the system in society to act as some kind of self-regulating break rather than relying on just the letter of the law.

This, in turn, I think touches on or turns on something else. For all of us, whatever we do in our society or in our economy, what we do needs to be meaningful to ourselves and give meaning to our lives. So much of our lives are spent working or in economic activity that deriving meaning from that is important. But it also needs to be socially acceptable, we can't give meaning to our lives – and we can't have a financial system and economy with integrity – purely on the basis of self satisfaction. We need to have a sense that what we are doing is socially acceptable.

Now, some of you – perhaps even many of you – would be surprised at the extent to which people around this great city, this commercial city, say that. They say it to me, they didn't just say it during the crisis or since the crisis but before. I really believe that there is in commerce quite a significant body of opinion that says somehow we need to inscribe values into what we do as well as rules. However, putting the genie back into the bottle is not going to be at all straightforward and I think it is something that should temper our rule making as we go forward.

**Bishop of London:** Thank you very much indeed. I turn now to Andrew Dilnot. Andrew, should we have been surprised that a recession came along?

**Andrew Dilnot:** Absolutely not, but many of us were. Indeed, many economists were. Of course we shouldn't have been and we should have been astonished at how long a period of economic growth we had. We had sixteen years of consistent economic growth, a period almost twice as long as any other period we've had in our industrialised history and probably four times as long as the typical length of time before we had a recession in the 1950s and 1960s. So we shouldn't have been at all surprised that a recession came along. Although, like unhappy families all recessions are different.

There was no surprise. There is a fundamental feature of economic life which means that the longer things have been good the more likely things will turn bad. That's not a new idea, it's there in the Book of Proverbs: 'a haughty spirit before a fall' and that is I think precisely the mechanism. Just after a recession people tend to be quite cautious. We saw that in the early 1990s after the last recession, people – bankers, business people, but also us as consumers – were quite careful. After two or three years when the economy has been growing people start to take a few more risks. If those risks work out okay then they take a few more. After five or six years people start to become quite bold. After sixteen years of everything seeming to be alright people were doing some frankly astonishing things, and that's the kind of thing that in the end will lead to a recession.

So we shouldn't be surprised by it, nor do I think that we can learn very much about the underlying nature of economic life just from this recession. It's a pattern that will be repeated and I'm sure that

– provided I live as long as I hope – I will see two or three more recessions before I go. I think there has been a bit too much focus on the wickedness of bankers. Some bankers are wicked, but they are not by and large in a real way much more wicked than all of the rest of us. We have all played, in the Western world, part in the consumerist culture that has been developed.

We'll talk more later I'm sure about the problems, but I want to say that as well as problems there's much to celebrate. I think one piece of good that might just come out of this crisis is that we might be reminded that economics doesn't tell us that everybody's behaviour is – or should be – motivated by financial self-interest. That's actually not how we live. It's not how all of us live in our family lives. It's not how we live in the communities of which many of us are part. It's not even how we live in this country, where large amounts of tax are paid by a relatively small number of people to fund services that they themselves don't much benefit from. It makes no sense for me to pay taxes to pay for an eighty-five year old widow in Northern Ireland, who I'll never meet, to have her hip replaced. But I do so because it does make sense as a human activity, even if it makes no sense within the bastardised view of economics which would say that all activities are self-interested. That is not economics teachings, it's not what economics should teach, and it's not how we live. We live in ways that in many cases are beautiful and loving, even of those that we don't meet. That's something that we should celebrate a bit more, and maybe out of the crisis of the last year or so some recognition of that might come.

**Bishop of London:** Thank you very much. John Micklethwait, the Arch-Bishop of Canterbury has commented that too many people seem to be intimidated by experts in economics. How can ordinary people relate to this debate and get involved?

**John Micklethwait:** I guess my answer is that ordinary people *are* involved in the debate, whether really we like it or not. It's part of everyday life, that's what economics is. I think in some ways, strangely just at a time when people feel more perplexed by the world around them, there is an element whereby economics has actually tried to move a little bit closer. You look at the huge success of the Freakonomics book – trying to explain why Sumo wrestlers are of a particular size using economic theory, or looking at why drug dealers work in a particular way. You look at the huge success of Malcolm Gladwell's books, and I think if you look at the television and you see Evan Davis – or for that matter if you listen to Andrew on the radio – you feel that there is more of a conscious effort by economists now to make themselves more understood; more relevant to the real world. I would argue that it's always been there, because economics fundamentally is the study of life. It's a relentless attempt to try and explain it alongside other social scientists. Sometimes this

means mad results. In the 19<sup>th</sup> century, the utilitarian economists trying to pick up on an idea which has now become fashionable again in terms of trying to measure human happiness rather than human wealth. They came up with a relentless series of formulas where, for instance, happiness was good feelings minus bad feelings. The most extreme even tried to create something called a hedonimeter, which would measure just how pleasurable your life was at the end. These were economists, not scientists.

But, at the other end of economics, the great economists have always been rooted in real life. Look at Kane, look at Galbraith, these are people whose views were fundamentally impacted by what they saw and by what people said to them. The famous Kane's quote about 'what do you do when the facts change? I change my mind, what do you do sir?' – that fundamentally was a reflection of the fact that economics is that way. You could even argue that the great founder of selfishness under some views, Adam Smith – and I do this very gently in front of the Bishop – in the *Wealth of Nations* Adam Smith even dealt with religion, where he argued very forcefully on behalf of not having established churches because he thought the clergy would be lazier.

The point is that economics is involved. I just want to spend one minute quickly at the end challenging, mainly in the air of spurring some kind of a debate, a couple of assumptions behind the idea that money is a crisis of value. The first one is to ask you to beware the use of the word 'values', which I think are rising in British politics at the moment. Particularly if you follow American politics you will see that values is a nightmare field where it often is a sign of intolerance. The second thing is the implication, I think, that people when they look at business – and they look at finance – they see no value in it. It's the idea not just popular amongst commentators, but amongst business people themselves. If you look at annual reports at the moment, they carry the message that the business itself is somehow not of value. What is of value is the Chief Executive going off to open a new school or corporate money going to some other use. Behind this I think there is the big idea of corporate social responsibility. I'd merely counsel that even in the City, and just as much in business, the really valuable thing that business does is business. Look at Henry Ford. People nowadays write about how wonderful it was that he paid \$5 a day to workers. That was not the really fundamental thing that he did for the world. The fundamental thing that he did for the world was develop the Model-T. People are doing this same thing with Bill Gates now, they are writing about how wonderful it is that he is a philanthropist. The really wonderful thing that Gates did, even if you don't entirely Microsoft Word, was developing Windows. So I question that assumption and I'll stop on that point.

**Bishop of London:** Thank you very much indeed. I'm really rather nervous now of asking Catherine Cowley whether you think that social values, as well as personal ones, are a major contribution to where we find ourselves now?

**Catherine Cowley:** Well I feel as if I've been setup by my three panellists here. Because I think that there has been quite a strong tendency to describe the recent financial crash as a technical failure. Now, I accept that there are technical issues there. But at heart I think it's not a technical failure, but a moral one. I think we can get stuck at a personal level, the greed or the hubris of the individual banker for example. We shouldn't forget that some of those things which are described as technical – like risk – have got an enormous moral component to them. Who bares the risk? Who gets the benefit? Who has to carry the can if risks go wrong? Not usually those who are able to gather in the benefit. So, even at that level I think there are significant moral questions.

I think that there are wider social trends and moral failures which have fed into it. One of the sources of that moral failure comes from our culture, which increasingly suffers from a form of critical paralysis. It's now very difficult, both at the public level and at the private level, to be able to say with certainty "that's good, that's bad". That has value; that does not. If you try and do it, very often now you are considered to be elitist or possibly oppressive of others who think differently from you. One of the difficulties resulting from that is that we don't have a shared morality, a shared understanding of the common good, and therefore a socially shared view of what limits should be applied to activities which impact upon the wider society. Another consequence of this difficulty of having a shared understanding is that it becomes very hard to say "I don't need that, I've got enough". We no longer know what enough looks like. So it is very hard to draw a line and say that's enough and on that side is excess or greed. Very difficult to do that, because we can only judge if something is enough against some sort of socially shared understanding of the good life – but we've no longer got that general understanding. All we've got instead, instead of having ways of life which are desirable in and of themselves, are lifestyle choices. This is something that the market pushes us quite strongly towards. The market says you can never have enough, there's always a new computer or a new experience or a new travel destination. You can always aspire to more and more and more. So where does enough come in? Without some sense of enough, without some sense of what is the socially acceptable limit to activity, it becomes extremely difficult as Paul Tucker has already said to find some sort of framework within which we can reflect more deeply than just a quick skim across the technical issues.

**Bishop of London:** That's a question then for other members of the panel, isn't it? Is it possible to have enough? Can you ever have enough? What would you say about that John?

**John Micklethwait:** I suppose I have two feelings. The first is the question of how much is enough. There are problems that come with capitalism, and I think Catherine is right to focus on that one as being something which sits there. My problem with it is that capitalism, a bit like democracy, is the worst system except for all the other ones. I don't see a tyranny of the markets, but I'd rather in some ways the idea about what's enough is not set by outsiders on other people – because I see that as fundamentally illiberal. With one very important exception - which is that society, through government, can set rules about what is enough. There are all sorts of rules at the moment. The idea that we live in a perfectly liberal capitalist society, or did so before the crunch, I think is nonsense. I just don't think it was there. I think there is a problem to do with excess, but I don't immediately see a way in which we can further than just government intervening.

**Bishop of London:** G20 seems to be deciding what's enough for bankers...

**John Micklethwait:** We empowered the G20, we give our votes to politicians to cast that particular line. On the whole I tend to view the problems caused by most bits of regulation by too much government as being worse. Actually, particularly for the poor in society than the other way around.

**Bishop of London:** Paul, you were talking about people needing to know about what they are doing, their enterprises are socially acceptable. Much of what Catherine was saying relates to some of your opening remarks. Can we ever have enough?

**Paul Tucker:** I think that in a market economy choice is absolutely at the centre of it, and choice is related to liberty. So these questions about whether one can have an excess of consumption, to which plainly one can think of examples that we have seen in communities or indeed individuals, but it is probably the sometimes unattractive underside of a society with choice and liberty – and this is tremendously important. There isn't a great deal of excess in repressed economies, because repressed economies are typically repressed communities. Therefore, it's hard to escape – if we are going to live in societies with that choice – the conclusion that community self-control is important. That does come back, I think, to almost a firmness of self that people can feel fulfilled without necessarily having to have that extra pounds worth of consumption. While it's something that you or I may feel, I'm not sure it's something that the state should prescribe in some way. Instead, we should lean against collective excess because collective excess can sometimes come not from individuals intending to take activity right up to the limits and then bring the ceiling down; but

through a collective action problem where nobody dare get off the bus while the party is still going. I think there is a role for the state in sometimes slowing things down, and this was famously described by a previous chairman of the Federal Reserve – not Allen Greenspan but one of thirty or forty years ago – as taking away the punch-bowl and that we should entrust that to somebody in society is, I think, a good thing.

**Bishop of London:** But has choice become the highest good rather than what we might choose?

**Andrew Dilnot:** I think it may have become almost an idol for some of us, and one of the features of our extraordinarily rich, modern, developed country lives is that we have an extraordinary amount of choice compared to the choice that our grandparent's generations experienced and the choices that are faced by many people around the world. But I think we can, here again, say that there are positive things. There are many people in even our rich Western societies who deliberately choose not to maximise their consumption. Teachers, doctors, nurses and ministers of all forms of religion by and large could earn more doing something else. Huge numbers of people look after family members, or even people who are not members of their families, at great cost in lost earnings. I think it's just wrong to characterise the whole of our society as desperately seeking more and more consumption, and yet there is within all of us the germ of that weakness - which is a weakness to which we are more and more exposed as we become richer and richer. So I think the challenge, the discipline, of not consuming all that we might is much harder now than it was even twenty-five years ago – and certainly then it was fifty years ago – when on average we were only a quarter as well off as we are now.

One last thing on this though. I think it is right to say that for all of us as individuals it can be very valuable not simply to want more and more all the time. But I do also think that we are created to be stewards of the world, and one of the ways in which we are stewards of the world is to go on seeking to generate new ideas; new knowledge; new ways of transforming the world in creation. One of the points that John Micklethwait made is that we shouldn't see business as being bad in itself, and I'd argue that it indeed can be good in itself and this creation of new wealth is by and large something we should welcome.

**Bishop of London:** John, you're rather suspicious of this talk about values. Could you explain a little more what you were meaning by us getting trapped into perhaps culture wars down this route?

**John Micklethwait:** Can I just add one quick thing to what Andrew said? It strikes me that if you want a very good example of all the difficulties on both sides of the argument, look at the question

of the environment and the developing world. There is a cast-iron rule in global development that once you reach around five thousand dollars of income you want a pair of wheels, and you can see that in virtually every developing country. Are you going to say to the people in China and India, where there is only thirty cars for every thousand people rather than nine hundred like in America, are you going to say don't go and get cars because that's terrible for the environment and the rest of us? There is always a balance, I think, between choice on the one side and what might be described as global interest on the other.

On the question of moral values, yeah I was pointing at America. It strikes me that the other night one of the main American Conservatives – as it happens, a deeply religious man – came across and gave a lecture where he went on a great deal about the values of faith, of family, of pride, of patriotism. Then one or two of the European members of the audience began to question him about how actually in many cases these are used in ways to exclude people as much as to bring them in. Families for some sort of people but not for others; patriotism is for some people, but not for others. One of the nice things about British political debate, actually amply exemplified by this panel, is that we can approach these things without everyone hurling epithets at each other. I think that is the worry about values based politics, and ten minutes watching any presidential debate will pretty much convince you of that.

**Bishop of London:** Well we have got some questions, but could I remind you that now is the moment to be writing your question and holding your paper in the air so that it can be collected.

I noticed that the great problem that was underscored in what you said Paul, was how you actually translate the business of government imposed regulation into the kind of ethos which actually can fuel the sort of restraint – the stepping back from irrational exuberance – that you were indicating was desirable. How can we actually build up that ethos? What are the forces in society which enable us to come to some kind of necessary restraint so that the whole system can operate?

Paul Tucker: I think absolutely at the core of this is public debate. Was it Bagehot who said – John will know this as one of his predecessors – that democracy is at its heart public debate, or words to that effect?

**John Micklethwait:** The truth is I don't know. [Laughter]

**Paul Tucker:** I do think that the public debate is absolutely at the core of this, and one of the few silver linings of the financial crisis is that these things are being debated again and perhaps they haven't been debated enough. The City of London has kept itself far too much to itself, it hasn't

talked nearly enough about its contribution to the economy. Finance in general hasn't talked enough about the contribution that it has made to globalisation and the lifting of living standards abroad. Finance, as well, hasn't talked about its tendency to excess and what can be done to curb that excess.

So, I think that the financial community itself can do much more to reach. I think that all parts of the community, not just in London but throughout the country and obviously abroad too, are much more interested in the role of finance – the role it plays in our society and economy. I don't know where that will lead, but I think it is not only a necessary condition for arriving at a happier resting place; I think it is absolutely vital that people should engage in that debate.

**Bishop of London:** Catherine, did you have a thought?

**Catherine Cowley:** Yes, I think it's quite difficult to work out what role finance should play. In one sense, the role of finance is to be at the service of the rest of the economy. That's its basic function, it is there to serve the economy. But increasingly I think the financial ways of thinking have crept into areas of life where they should not be. It is now very difficult to express the value of anything except in monetary terms. I think if you were to go back two or three generations and say to someone, what's the value of your home? That person might very well have responded in terms of its value being in stability, security, somewhere where I can have my family in. What you would not have got would be the value is x thousand pounds. I think that financial thinking, monetary thinking in that sense, has pushed out a lot of other ways of valuing people; things; services. This is not necessarily the fault of the finance community, I'm not saying they've been going out there with some sort of intellectual imperialism trying to take over, but it's a fact that finance has now become so central that it's colonising what perhaps it should not colonise. Finance, instead of being at the service of the economy there's just a feeling that actually perhaps it has reversed itself and the economy is now serving finance.

Dreadful word – derivatives – those nasty things that lay behind so much of the recent problems, they were originally devised to help people like farmers to smooth out income. There is a huge good benefit to derivatives, but in the last few years only about 5% of derivatives have been used in that way and the rest have been speculative. Not serving the economy, only serving the accumulation of wealth. Not the creation of wealth, but moving it from place to another. Because, in essence, it has been gambling. It's a bit like if I bet that Arthur's Ransom is going to win the 2:30 at York, and you bet that it doesn't, one of us will be wrong. One of us will be worth off, no wealth is being created it is simply being moved around. Too much of what the finance sector has been doing over the last

few years falls into that sort of category, the non-productive. We've seen, in fact, that wealth has not been created. A lot of it was simply illusory, and I think that it's at that sort of level that financial practitioners need to ask themselves some quite hard questions if they are going to regain that sense of service towards the rest of society and the rest of the economy.

**Bishop of London:** Andrew Dilnot, do you recognise that description of what's been happening?

**Andrew Dilnot:** I do recognise it, and I think it's an important part of what has happened. But I'm also keen to emphasise that we're all in this together, and the proximate cause of this recession and financial crisis was bankers' behaviour. But the bankers' behaviour has reflected the demands put on them by us as consumers, and by the rapidly growing wealth that we all hold. There has been a shift from a world where 100 years ago there were 40,000 people aged over 80, and now there are 2 million. A world where we expect to be in paid employment for rather less than our expected life, and therefore we rely – all of us – incredibly heavily on financial markets to be somewhere where we can store the savings that go into our pension funds so that we can consume them in our retirement.

So, I'm just keen to draw our focus – not away from the financial markets – to all of us as well as onto financial markets. I think we're all struggling not because we are all so poor, but because we are so rich and I think that the wealth, the income, the consumption that is available to us now is a new experience for us and one which we haven't fully come to terms with. We need to do better at recognising when more income and more consumption will make us less human and less happy, not the other way around. That doesn't mean that wealth creation is bad, but I do think that the problems affect us all not one sector of the economy. It is something that bothers me about much of the debate in the last eighteen months, that we are rather scapegoating a particular event and a particular industry; which tells us something about what is going on, but is part of a much wider and deeper issue.

**John Micklethwait:** I very much agree with that, I think there is a huge danger at the moment of conflating two debates. One is an entirely necessary and justified debate about finance, not even the most extreme libertarian could stand in front of you and say it was a wonderful world where we ended up with 62 trillion dollars worth of credit default swaps. Something went wrong and something needs to be fixed, and you can have long arguments about what sort of new finance system you need to make. The bit which worries me, in terms of a large amount of the criticism which is coming at the moment, is conflating a problem – a very big problem in terms of finance – with a wider issue about capitalism in general. Because when historians come to write the history of the period between roughly 1975 – 2008, they're not really going to write about Fred Goodwin; or

how much Goldman Sachs made; or what AIG did; or even Northern Rock. What they are going to say is that there was the most incredible economic transformation pretty much in economic history, and that a billion people jumped out of absolute poverty into something approaching a middle class. That will be the big thing that people will write about when we go forward, and the danger in terms of what we might do now is exactly the same presumption in favour of basically liberal economics - which enabled that to happen – could reverse. Then, I think that would be the great tragedy which I think is slightly what Andrew is trying to say as well.

**Bishop of London:** Paul, I think you wanted to comment on that?

**Paul Tucker:** I'll just add a couple of things if I may. I agree with a great deal of what John has just said. In response to Catherine, I think the one thing that should reassure you is that - whenever in economic and financial history the financial markets have detached themselves in a radical way from the real economy that they serve, the bubble has eventually burst. It's uncomfortable when it happens, but it has always burst and the extraordinary thing since the 17<sup>th</sup> and 18<sup>th</sup> century is that we have always resumed economic growth with rising living standards as John has said. I wanted to put something back to you really, which is that I think the greater concern revolves around the great responsibility of the exercise of choice. It is truly marvellous and liberating to live in societies that have choice, but the exercise of human choice is in some respects a burden; both individually and collectively. I think that may go as much to the kind of malaise that you see it as something to do with finance in a narrow sense detaching itself from the real economy.

**Bishop of London:** I must say, I wonder whether the desire for more and more and more is indeed a very important part of our nature – but that at a certain point that more and more has to be detached from things and invested in relationships. What usually happens when the end comes and as a priest you stand at somebody's deathbed, it's nearly always the relationships that people are concerned about. I think that perhaps this more and more is not an evil, it's only if it is short-circuited and attached to things and is not directed to its ultimate end.

We've got some very sharp questions. One question is, should not shareholders rather than tax payers bear the responsibility for the mistakes made by banks? Now, it would be very unfair to ask you Paul straight away – but I shall do so.

[Laughter]

**Paul Tucker:** Yes, and if only. Shareholders in many of the banks have indeed suffered great losses, but a point comes in these crises where to inflict the losses not just on the shareholders but also the

creditors would lead to a ricochet and a spiral away. This is the problem of confidence, not just ebbing away slowly but disappearing away entirely into a vortex. In the autumn of 2008 we didn't face the abyss, we faced the complete seizure of our economy; with banks and the payment system about to stop and you would have gone to the shops – or onto the internet – and you would have found that you could not pay for goods or services. That is not something that having reached that dreadful state of affairs is something we could have got out of by saying we'll put more of the losses on shareholders. We were well beyond that point.

But, is it vital to build a system in which the losses fall on shareholders and on creditors and not on the tax-payer? It is absolutely vital to do so, for two reasons. One is justice and fairness, and the other is that if the gains are enjoyed by the few and costs are born by the many then the few have an incentive to gamble again. I give my assurance that almost nothing is taken more seriously by international policy makers, as well as domestic policy makers, but it is a formidable problem to solve.

**Bishop of London:** Is this the view of you all? [All agree] Remarkable unanimity there. Since we are talking about tax-payers, there is another question here: what about a consumption tax? I thought we actually had one didn't we in VAT, but what about a consumption tax? I suppose the question really is what about increasing consumption taxes rather than increasing income tax in order to help restrict what you've described as collective excesses?

**Andrew Dilnot:** Well I spent 21 years of my life thinking about the tax system, and I'm a really very interesting person. [Laughter] Consumption taxes certainly have a part to play in all tax systems. They're very important in countries which don't have robust tax regimes. They can be very important in the developing world, and they can be an important part in making sure that you capture tax from the very wealthy who might otherwise be able to escape tax altogether by the use of clever tax avoidance mechanisms. But in general, they bare more heavily on the poor than do income taxes. In general, the poorer somebody is the more likely they are to spend all of their money; and so the proportion of somebody's income that will be taken in a consumption tax tends to rise as income falls. They tend to be regressive, and so I think are not terribly helpful.

Now, of course, we can think back to the late 1970s when we had higher rates of consumption taxes on what were then called 'luxury goods', and we can try a certain amount of that. But, by and large, deciding what is and isn't a luxury good is an undignified process that leads to lots of money going to tax lawyers and farces such as the long debate about whether a Jaffa cake was a cake or a biscuit –

on which turned huge amounts of VAT revenue. So my own view about taxation is that if we want to tax the rich more heavily we should tax the rich more heavily by having a higher level of direct taxation on them. Not necessarily through having a higher rate of income tax, because if we put the income tax rate up much higher we will I think encourage tax-avoidance. The biggest loss in taxation we've seen in the last 25 years was the reduction of the basic rate of income tax from 33 pence to its current 20 or so. That's the way we will get more tax from the very wealthy, consumption taxes sound like an attractive idea but I think in practice they won't go very far and if we raise them we would end up hitting the poor.

**Bishop of London:** No votes for consumption taxes?

**John Micklethwait:** Actually, I am slightly keener on consumption taxes than Andrew is because I think there are ways to structure them so that they do target more. I think in terms of the general tax system in most Western countries there probably isn't enough on consumption, there's more on other things. But that would be a nerdy argument of such great depth that no-one would want to go for it.

It did strike me one thing whilst Catherine was talking, and I'm sorry that this is always Catherine that ends up as the barb for my attacks, that the flipside of the vulgar financial consumption that you deplored is the good side of vulgar financial consumption of the kind of Hello! magazine variety. It's suddenly terribly transparent. The awful thing about previous generations was that the wealth was hidden away behind locked walls, nobody knew exactly what people had. The 'loads of money' culture in a strange way is more open, and therefore more critical and perhaps part of the greater public debate – even if we think it's ghastly.

**Bishop of London:** I think George Bernard Shaw said that the reasonable man adapts to the society that he lives in, the unreasonable person tries to adapt the society to his visions and goals; and therefore all progress depends on the unreasonable man. If you're looking at this present situation, you are omni-competent, what one or two things would you like to see done in order to restore the confidence – which was the subject with which we started – and to help the economic model, in which most of the panel seems to believe, perform efficiently in a world in which there are finite resources and one has to wonder whether growth can be infinite. What are the sort of things that you would want to do passionately in this situation?

**Paul Tucker:** I would want to find a model for the global economy where the burden of adjustment was borne by the surplus countries, which include Asia and China at the moment, rather than just

the deficit countries – America, the UK and parts of continental Europe. That’s because one gets smoother adjustment that way. I mention this because it’s rather technical in terms of global macroeconomics, but in terms of the shared economic planet collective membership means co-operation and working together than perhaps more than has been the case over the past ten years or more.

The second thing goes to the question that you gave me just now, Bishop, which is I would love to find a way of ensuring that in future when these crises occur the cost falls on the banks or on the insurers – rather than on the tax-payer. I’ve aired this thought a few times recently, but I do think it might be possible to build a system where the government may need to step in every fifty years, or seventy years, in order to stop the ceiling caving in; but to the extent to which the government bares costs it might be possible to put that back onto the residual financial sector rather than on the population as a whole. I don’t know whether that is feasible, but I certainly think it is worth thinking about. Not just because of the economic efficiency that it would bring, but also because of this question of social acceptability – if you like – the subtext of social justice that runs through this.

**Bishop of London:** Catherine, what is to be done?

**Catherine Cowley:** I’ve never thought to hear myself say this, but I agree with the banker on my right.

**Paul Tucker:** [Laughs] I’m a central banker.

[Laughter]

**Catherine Cowley:** That is true, you are a central banker. I think that he has touched on some very important issues. One of the things that I would want to do would be to push for widespread, deeper reflection on this whole question of the ethics of risk. What counts as a risk, what counts as a benefit? Who carries the risk, who carries the burden? I’m not just talking about the tax-payer here. What we have seen over the last two years is that the activities of a numerically quite small group have had a devastating impact on the lives of millions of other people – who have lost their jobs, have lost their homes, have seen their livelihoods wiped out. That’s a moral question, and it can’t be ignored. Until we start asking those hard questions, we’re going to leave too many gremlins in the system. There are still going to be all sorts of ways that you can wriggle your way passed. So, I’d like to see those hard questions asked. I don’t have all the answers, I’m not suggesting that I do, but I want to see them asked in a very serious way.

**Bishop of London:** If you were all-powerful, Andrew Dilnot, what would you do?

**Andrew Dilnot:** Persuade people to stop taking economics so seriously. By and large I think economics can be left to itself, and left to practitioners. I think we've come to take economics and economists much too seriously, and I don't think that we're responsible for most of the really important questions. What will the world look like 25 years from now? Well, absent conflict or environmental disaster, the rich world will be twice as rich as it is on average now; and the developing world will be four, five or even six times as well off as it is at the moment. I don't think we need to worry too much about that.

What we need to worry about is what we do with that, and what we as individuals do with our lives. The big issues that I would love to see in political debate, and indeed in theological debate, are about what we do with all this wealth that is being created. Now, we live in a country here in the UK where we share an awful lot of it out; through a state education system, a social security system, a national health service. Curiously, although we do an awful lot of that we give very little of it overseas. But we don't have a debate, we don't have a political debate, we don't have a theological debate, we don't even have a debate in which economists are much involved, talking about what our objects are; what it is that we really want. Surely, the most important thing that we really want is not making sure that the average rate of economic growth stays around 2.75%. I mean, for goodness sake. It's *true* that if the rate of economic growth is 2.75% we get twice as rich every 25 years – but that's not what we all want, that's not the core of our desires and it's not what we should be seeking as people. So I would love to see economics taken less seriously and much more focus given to the genuine seeking after whatever it is that people really want and will find really satisfying; and that by and large will not be money.

**Catherine Cowley:** I just wanted to pickup, not to debate now but just to point out, that Andrew when he was describing that used the phrase "absent conflict and climate change". I don't think we can have this conversation assuming that in 25 years we will not have conflict and climate change, and I think that is part of the unreality of so much of the public debate at the moment. Is that it ignores those two – what I think are – looming realities. We cannot just discuss things as if they're never going to come.

**Andrew Dilnot:** I hope I said absent conflict or environmental disaster. Climate change we have got, and certainly will have. What we can't be sure we'll have in the next 25 years is environmental disaster, and I certainly hope we don't get it.

**John Micklethwait:** I wanted to stick up for the economists because, I think just to use that specific example just as one, it strikes me that if you look at the environmental problem I wouldn't describe there as being unanimity amongst economists – but there is a pretty widespread belief that the only way you are ever going to deal with it is by introducing a carbon tax. The economics profession is at one in pointing this out, or pretty close to it, and it is spineless politicians who can't face the hell – if I can use that word here – of trying to sell that to voters. I sort of agree with Andrew's tone about economics, you can't take it too seriously, but it does have its uses. It's good, in some ways, at repeatedly examining its failures; and the environment is a failure that economics has always had to deal with. The tragedy of the commons, where we all have a stake in something but we don't have enough self-interest to get it done. In this case, there does seem to me to be a fairly straight forward answer but one which politicians so far have run away from at high speed.

**Bishop of London:** Thank you. I mean, Andrew says of course that we perhaps take economics too seriously – but we do, it's the truth. The economy has become our god. Morning and evening you have the New Matins and Evensong on the news - you have the FTSEs rising, the Han Seng is stable, the Dow is falling – it's a mantra, an incantation and might just as well be in Latin. It really is a form of worship. My question therefore since we have a distinguished panellist who has written a book entitled *God is Back*, can I ask the elephant in the room question? Is there any way of restoring a sense of value in things other than money and wealth without God? If you edit out God, doesn't everything else become flat and numbered?

**John Micklethwait:** I suppose my answer is 'not entirely', but there is quite a lot of evidence that in general the two work alongside each other in a more or less direct way. I should give 10 seconds on this book, it argues that religion is actually doing amazingly well pretty much everywhere outside Western Europe. If you go and wonder around the new bits of China, if you look at the billion people I've just been talking about, they are embracing religion in quite rapid numbers. If you look at America, the centre of the evil capitalism from one point, that is a highly religious country where the same people who go off and bet on derivatives then go off to mega-churches at the weekend. I think the two aren't incompatible. My liberal self though, is loathe to immediately ascribe religion as being the only value system to deal with it.

**Bishop of London:** But editing out God, obviously has an impact, doesn't it, on the way in which a society views itself and behaves?

**John Micklethwait:** I'm now going to contradict myself entirely by using the word 'values'. I think that editing out any value system is bound to have some impact, and you can argue in many parts of the world that values have, to that extent, gone.

**Bishop of London:** Andrew, what's your view?

**Andrew Dilnot:** We can't have the kind of world in which we live, the kind of society in which we live, without altruism. It requires altruistic behaviour, and there is a great deal of altruistic behaviour. I am myself a practicing Anglican, and so I have a clear view about where that comes from – in my view, we can find it in God. But I wouldn't to say that is the only place where we can find an argument for altruism, and there are many people who quite explicitly don't have faith in any kind of God or superior-being who still act altruistically; and I think that is something that we should honour.

I do think that what we've seen in the last few decades has been an erosion of the sense that altruism and something beyond ourselves is something to be taken seriously. A demeaning and, on occasion, ridiculing of that view; and if we go on ridiculing the idea that there can be some underlying meaning and some meaning that creates a set of values, then we can end up being stuck with a world where the only thing that we can describe as coherent is selfishness. That will be a terrible world, but it is the world that I fear too much of our politics speaks to – not just in this country. This goes back to one of the things that John said, I think that one of the reasons that politicians are frightened of talking about a carbon tax is that they feel they are trapped in a world where they can never say that they are in favour of a policy change that will make people worse off. Well, we need to grow up.

**Catherine Cowley:** I think that you might not necessarily edit in God. There are many agnostics and atheists who are altruistic, who have a deep core of solid values. But what I think that is relying on is some sort of sense of an awareness of the transcendent; that it is possible to go beyond one's self. That me and my little world is not all that there is. I'm interested that this came up because I had my first year undergraduates this afternoon for their very first ethics class, and it was quite interesting and really quite sad that the majority thought that all morality was based on selfishness. They didn't say that they necessarily agreed with that, but that was their assessment as 19 year-olds – that selfishness is what motivates people, selfishness is what holds things together morally speaking. So they would find no problem with what Andrew has just said there. Of course politicians are not going to say to us there is going to be a carbon tax, because that makes us worse

off and I'm selfishness – they would say, we are all selfish so why should we even think about making ourselves worse off.

Without some sense of the transcendent, all you're left with is your own small enclosed little world. Although I don't think everybody would accept the word 'God', I think transcendent needs to be in there.

**Paul Tucker:** Connecting this to the debate about economics, consumption and greed; I think one can be a bit more hopeful about this. The extraordinary thing, as John was saying, about the past few decades is the extent to which the world has become more joined up. I think empathy is one of the most important facets of life, and it seems to me that during my adult life the extent to which people on different sides of the world do empathise with each other a bit more – rather than just being of a different kind, culture, colour or whatever – I think this has been one of the most remarkable developments of human history. I hope that as it continues, as I believe it will, the thing that will eventually shine through is a sense of common humanity. As soon as one reaches that point, one confronts issues that we are creatures with finite lives and we know that our fellow beings are creatures with finite lives. That raises a dimension well beyond day-to-day commerce, even though I think actually it can be fuelled by the consequences of day-to-day commerce, and people describe that extra dimension in all sorts of different ways but I don't see any sense that global capitalism will cause it to erode over the medium to long run at all.

**Bishop of London:** Sympathy is a central term for Adam Smith, of course, in *The Wealth of Nations*. How do you think then that we are to help the next generation, described by Catherine as one that – even against their better judgment – is operating from a selfish matrix theoretically, even if their behaviour is more altruistic than that. How are we to actually build a society and an education in which this sort of sympathy, this kind of self transcendence, is nourished?

**Andrew Dilnot:** I think we should talk about it. There is a lovely article which I almost commend to you all in the 1983 edition of the *American Economic Review* – a scholarly journal of economics – by Marwell and Ains. It's an experiment which takes undergraduate students in America, some economists and some not, and puts them through some psychological tests when they arrive; before they start being taught. At this point both those who are studying economics and those who are not behave in much the same way, and they co-operate with one another. These are psychological games where if you co-operate things are alright, if you don't co-operate then you're the person who wins and everybody else loses. Well, everybody co-operates, which is *not* the dominant strategy. The dominant strategy is to screw everybody else and not co-operate.

After a year, they do the tests again, and by that stage the economists have stopped co-operating.

[Laughter]

They have been taught that you shouldn't co-operate. I think what this shows us is that actually our basic position is a co-operative one. We're not all wicked, selfish terrible people. But we talk as though that is what is going on, that is how our whole politics behaves. I think that's an area that I myself would like to see a bit more input from the churches. To talk about why we're not selfish one way of doing that is to start from a theological perspective, and I think that is something that we should hear more of. I would love to hear Bishop Richard given the opportunity more often to talk about that, to talk about the moral underpinnings of our social life. Not only when there's the kind of financial crisis that we've had at the moment; but year in, year out.

Now, actually people are not terribly interested in that. Richard I'm sure very rarely gets given that opportunity in the national media, except when there's a crisis. But I think that all of us should take the opportunity to look at the things that are to be celebrated. The strength of family life, the strength of community life, the strength of our country where we do have institutions like the health service; the education system; a social security system that make any biblical notions of tithing look paltry. But we don't talk about that, we tell ourselves again and again that all we are interested in is our own self interest – and by talking in that way we build up that notion. So, what I would like to see is all of us in all the estates of our country talking about the ways in which we look after one another.

**Bishop of London:** But why isn't that happening? Why, in fact, the only time as a Bishop I can tell you is when you say something absolutely ludicrous or go on a bouncy castle and make yourself a spectacle; that's about the only time that anybody takes any interest. I'm not being self-pitying here, but why is it the case that we don't talk in these terms? Why is it the case that there is a culture of mockery and denigration? That, actually, is not so serious with Bishops; it's part of the game. What worries me is the culture of mockery and denigration when it comes to other people in public life. When it actually comes to politicians, many of whom may well have committed some pretty dubious acts; but an awful lot of them are in public life because they have real altruism and really want to do things. How do you think, John as a practicing journalists, we can possibly change this atmosphere of denigration and cynicism and start accentuating some of the things that Andrew is talking about? Because it is absolutely clear, things that are not mentioned gradually become invisible and not practiced; and that's a terrible parable. You can be educated out of altruism.

**John Micklethwait:** It's a very hard one, because the flipside of too much denigration is control I suppose. That's the difficulty from a liberal perspective, that on one side you look at the tabloids hounding some poor person; on the other you look at areas where the press is sort of muzzled, and neither of them are particularly attractive and I happen to think that the second one is less attractive than the first. Retreating behind the idea of press freedom isn't meant to be a cop-out, I just think it is incredibly difficult.

I do think there is some evidence, you can argue in some bits of the media, that there is actually more room at the top than most media owners seem to think. I think if you look, particularly at the way the relatively upmarket things have done extremely well recently. Not just in the media, but if you look at this gathering – if you think about it – shows how many more debates like this there are than there were say 5 or 10 years ago. You look at the growth of literary festivals. Look at people flooding to galleries. The way that, in general, quite sophisticated, clever things have done quite well. That gives me some sort of hope at one end.

A lot of it has to do with the language. It strikes me that there is an element whereby both sides jump immediately to particular words. Selfishness and greed on one side; choice and freedom on the other, and they both tend to be abused really rather easily I think. By both sides I should stress. Somewhere behind it, I suspect, there is an issue which has to do with the state. There is a question – which Andrew sorted hinted at – about how much we want to outsource our altruism to the state. Because you could argue that one reason why, say, churches are not as healthy here as they are in America is because they don't do as much in terms of community work. Not because there is anything wrong with the churches, but because in America there isn't as much state to do the community work. Is that a good or bad idea? Maybe some of those old conservative thinkers who went on about the little battalions, and those being a core bit of society, maybe they're important.

All I do very much agree with is the idea that it is very difficult to have that debate in an environment where on the whole things are measured in rapid, cross-fire sound-bites; because this is not sound-bite debate.

**Catherine Cowley:** Ideas have behavioural consequences, and if you repeat something often enough it assumes the status of a fact. One of the things that worries me is that there's this polarisation between controlling the press and press freedom. Because it strikes me that a lot of this denigration, this hounding that the other panellists refer to, is itself a form of control by the media of public life. The only way of countering that is for as many people as possible to do the sort of

thing that Andrew was suggesting, but I don't think that we can rely on the media to do it for us. Because there are all sorts of vested interests with the way things are now.

For example, John spoke about the immense religiosity that you have in the United States. But if you look at any of those US series that come out - whether it's Friends or whatever – you never see anybody going to church. There is no mention of that huge slice of American life. Why not? Well, because the media actually don't – in general, there are exceptions – don't belong to that particular segment of society. So a whole section is ignored and it is not portrayed in the US programmes on television. I think that the same sort of thing can happen over here in our media. The media has a certain world-view, a certain image, and that's what gets pushed forward. It is very difficult after a while to realise that, actually, behind that media picture there's a whole other world going on.

So, I endorse very much what Andrew has to say about all of us being involved in the debate and telling a different story. A story which I think is more true than the sort of things that you will tend to get in some sections of the media.

**Bishop of London:** Do you have any ideas Paul, on how the debate can become audible?

**Paul Tucker:** Well, I just offer these thoughts – really about public life. Cynicism is an appallingly corrosive thing, and actually if you look back on the remarkable achievements of humanity there is no reason for cynicism. But I think for people in public life, and I guess I'm in public life in a minor way as a member of the monetary policy committee, the following things are really important. First of all, that one explains clearly what one is trying to achieve and how; that one is honest about the prospects of success, because they are never certain and it can go wrong in all sorts of ways; and then one sticks, and sticks visibly, to what one said one would do – unless the circumstances change, and you can explain why you have changed course. All of that sounds obvious, but it is hellishly difficult to pull off and one just keeps on having to return to it.

The most important part of what I said just now is not promising too much, and to convey the uncertainties and the way that things might go wrong. One of the things where one can make a mistake in public life is making it sound as though we will fix it – and we'll fix it by such and such – and, of course, sometimes it works out and sometimes it doesn't.

**Bishop of London:** Certainly there is an inflation of expectations, isn't there? The temptation to spice and dramatise in order to sell a story, so perhaps we have to be a bit more boring really – but The Economist and The Week, for instance, are examples of what you say; that they have experienced a very considerable expansion of circulation recently. Do you have a last thought on

this John, on the whole subject of Money: a Crisis of Value? Have you really suggested what crisis, and value is a contested word? What's your final thought?

**John Micklethwait:** One very quick thing is on the vested interests in America. I think they are there and I think they are around the world; but I would merely point to two things. One is, if you look at what happened in terms of Obama – rightly or wrongly – if you do appear to be saying something different and signifying something different, it is able to catch fire on a different level. Even, arguably, on a somewhat spiritual level.

I think in terms of where we stand in terms of values. I was rather moved by something Andrew said, or conflating something he said, that we are at a very interesting point. On the one hand, one side of the debate doesn't fully acknowledge the massive benefits of progress generally – and that's back to the billion people and the dramatic increase in human happiness as we least used to measure it. Because the mere fact that we are arguing, in some ways, about things like values somewhat shows how far we've got; that it's no longer a case about people just needing to keep alive. On the other hand, I think there is that debate about what the meaning of life is which ties into something Bishop Richard said about people at the end of their lives not often looking back on how much money they have made or which particular thing they have done. That aspect is, I think, probably not covered particularly well from the other side.

**Bishop of London:** Andrew, do you have a final thought for us?

**Andrew Dilnot:** In the developing world of which we are a part, the problem is not how poor we are it is how rich we are. I don't think we have yet come to terms with the kinds of choices that we need to make. But I would just emphasise that there is a great deal to celebrate, and I think if we did a bit more celebrating of the good that might encourage us.

**Bishop of London:** Catherine, your final thought.

**Catherine Cowley:** My final thought is I would want to see taken more seriously a resurgence of the value, the ethos, of public service - public service within the commercial sector, but also public service one to another. Because I think that this would help deal with this corrosive cynicism, as well as enabling us to build a shared understanding of shared life.

**Paul Tucker:** I think we need to be aware of how we touch the world, and how what we do ripples through the world. This is particularly true for institutions in the public sector, and commercial institutions in the private sector. As John said, corporate responsibility isn't about making donations

– although that may be a splendid thing to do – it is about understanding the role of one’s particular business in the wider society.

**Bishop of London:** Thank you very much indeed. As I look at the questions, almost all of them have been covered in what you have been saying - questions about choice; fragility or solidity of capitalism; the ability to measure enough and how you do it. I’d like to thank the members of the panel on your behalf for their candour and their answers, and thank you very much indeed for making this a very good beginning to our series on Money, Integrity and Wellbeing – and I suspect that we shall circle around some of the questions that have been opened up and try to exemplify what members of the panel have been saying. We really do need to name these things and to have a serious conversation about them which isn’t just point scoring.

Thank you so much, members of the panel.

[Applause]

End.