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Stephen Green, UK
Minister for Trade and
Investment

INTERVIEW BY CHRISTOPHER GENTLE

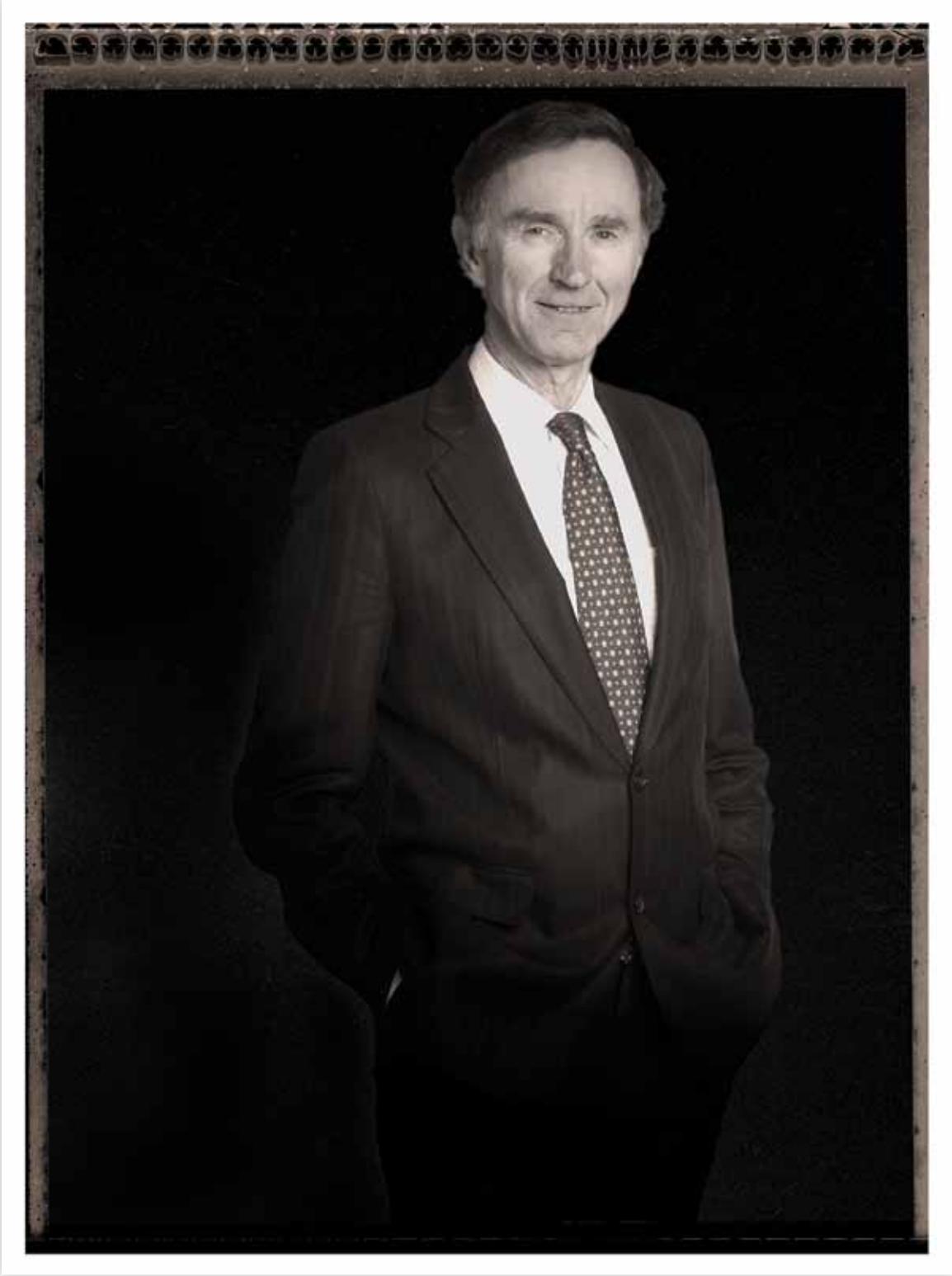
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An interview with Lord Stephen Green, UK Minister for Trade and Investment

INTERVIEW BY CHRISTOPHER GENTLE

Lord Green and Deloitte Review European Editor Christopher Gentle discuss key themes taken from Lord Green's recent book Good Value and reflect on the financial crisis and the new forces likely to shape business in the future.

Stephen Green began his career with the British Government's Ministry of Overseas Development and then joined McKinsey Management Consultants, where he was seconded to a number of locations including North America, Europe and the Middle East. He joined the Hong Kong Shanghai Banking Corporation in 1982 rising to the position of global chief executive. He became executive chairman in 2006. In November 2010, Green took his seat in the House of Lords, and in January he became the U.K. Minister for Trade and Investment.

CHRISTOPHER GENTLE: IT IS NOW OVER THREE YEARS SINCE THE FINANCIAL CRISIS BEGAN. IS CRISIS THE RIGHT WORD TO DESCRIBE RECENT EVENTS?

STEPHEN GREEN: We need to think about the crisis on a number of levels. First of all there are the obvious financial excesses which occurred and the various lessons, some of them very technical, that need to be learned from the way in which it unfolded from 2007 onwards. Lessons in the areas of accounting, for the rating agencies, for regulation, for the banks and their governance, for investors and their expectations, for customers and their expectations, and for politicians for whom the whole thing was really rather an agreeably good scenario in the early part of this decade.

There are also the lessons that relate to the wider context. Much of the discussion of the crisis focuses on what happened within the financial markets and doesn't focus enough on the

background macroeconomic changes that were taking place and are taking place in the world at large. These forces set the scene for the crisis and made it more liable to happen.

It is very clear—if you look at the statistics in the first half of this decade and indeed the latter part of the 1990s—what was happening to the world economy. Growing deficits in the developed countries as a class, growing surpluses in the producer countries as a class, and the financial imbalances which resulted from that were a major cause of the way in which the crisis evolved subsequently. And I could easily spend an hour or more on both those technical lessons within the financial markets themselves and on that wider macroeconomic context. But it's also important to focus on what you might call the deeper context of all of this. Because, as everybody has noted, this was a crisis of the globalized world and it was the first major crisis of the globalized financial world.

CG: DO THESE EVENTS MARK A TURNING POINT FOR THE WORLD ECONOMY? AND DOES THIS MARK THE FIRST MAJOR CRISIS OF GLOBALIZATION?

SG: Yes. The global shift of the center of gravity from West to East is the big macroeconomic fact of the first half of this century. This is due to the emergence or rather the re-emergence of some major Asian countries on the world economic stage and therefore of course on the world political stage as well.

This is the first major crisis of the globalized, securitized world. It is also the first crisis in the real economy in the just-in-time, globally connected world. And so there are a lot of things to be said about globalization as the underlying phenomenon, in all of this. Should we see globalization as a recent phenomenon or has history got important lessons for us? Globalization, when you reflect on it, is a very old phenomenon; it is not a recent one. It may have gone into overdrive recently, but it actually is as old in its initial instincts as human experience is. All the evidence is that from the very first, human beings, when they met each other as they spread out around

the planet, they did one of two things. They either fought or they traded. The history books have concentrated an awful lot on the former and perhaps not enough on the latter. There is plenty of evidence from centuries before the time of Christ, for example, of trade across the Mediterranean, of objects being found in the Mediterranean that could only have come from places like Scotland and vice versa.

CG: TALKING OF SCOTLAND, WHAT ARE YOUR THOUGHTS ON ADAM SMITH'S CONTRIBUTION TO THIS DEBATE?

SG: As Adam Smith put it, there is a propensity in humankind which goes back to these earliest beginnings to truck, to barter and to trade. Of course, throughout most of human history, that was on a fairly simple scale and very limited in its implications for what people did. But as time went by the degree of trading intensity around the world increased and so did one other major phenomenon which went with it – and is in my view inextricably linked to it – and that is urbanization. Urbanization has also gone into overdrive recently but, again, has its origins very early in human times: cities being developed at river crossings, at natural harbors, on trading routes and so forth. And that has gone on through human history to the point where for the first time more than half of the world's population now lives in cities. And, if you project out those trends, then by 2050 something like 80 percent of the world's population will live in cities.

CG: SO THE ONGOING URBANIZATION OF SOCIETY IS CENTRAL TO THE FOUNDATIONS OF YOUR THOUGHTS ON THE CRISIS?

SG: There is quite a lot of literature on what urbanization does to human consciousness: sociological and indeed psychological literature. It is clear that as people move from settled agricultural environments or nomadic environments to urban life, much changes about the whole of human consciousness. You move from settled relationships with those who you were born alongside and develop more fluid relationships. You think more individually and less collectively. In general, there is an atomization of the way you behave, your relationships,

the way you think about others and so forth. And there is a lot of literature and art which documents the way in which people start to reflect on the human condition in the context of an urban environment in a way that they never did before. Indeed you could write whole books on how urbanization has affected and is affecting human consciousness.

CG: HOW DO YOU MAXIMIZE THE BEST AND MINIMIZE THE WORST OF LIFE IN AN URBANIZED MODERN SOCIETY AND IN THE MARKET WHICH IS THE INEVITABLE NATURE OF HUMAN COMMERCIAL INTERACTION?

SG: One way of putting that question, which was discussed through the Middle Ages in various guises right through to modern times, is how do you relate the activity of the individual in the urban area or the activity of the individual in the bazaar (or the marketplace) to what you might describe as the common good? And you can trace musings on this question from some surprising quarters including the early Franciscan movement in Europe, John Calvin and Confucian thinkers in the equivalent time period in China. And indeed you can trace it through to Adam Smith who is often caricatured as being the person who advocated the workings of the market as being the only thing that counted. In the *Theory of Moral Sentiments*, he explores this very question of how do you associate social virtue with the workings of a marketplace? I think those questions are as topical now as they ever were and indeed we've been reminded of their importance by the events of the last couple of years. Of late you might say that we have lived with an ethos in the marketplace that is often described as market fundamentalism. I suppose that term means that the market and the price that it puts on goods is the only piece of evidence of any real worth.

CG: IF OUR ETHOS OF MARKET FUNDAMENTALISM HAS NOT SERVED US WELL, HOW MIGHT WE TAKE A FRESH PERSPECTIVE ON THE MARKET?

SG: Another way of looking at this is the view that shareholder value maximization is the only test of success in business. It is as if we saw in the markets, in recent years, an attitude

develop that if I have got a contract and a product that has got a market, and it is legal, then I don't have to ask any other questions about rightness or suitability. I would suggest that simply won't do, and indeed I think we all know that it won't do.

It won't do because, firstly, the markets show themselves to be extremely unstable – and at times dangerously so.

Secondly, it won't do at the level of our own psychology; we know that isn't sufficient for the way we think about the world. Why should we therefore project this as being a reasonable way of thinking about society more generally? The social statistics clearly show that this does not correlate very closely with human happiness. And indeed when I think of the kinds of people engagement surveys that most large companies carry out, it is very clear what the things are that turn people on, and money doesn't rank all that high in the list of answers.

When we talk about something as having no value, even though it might have a price, we call it valueless. When we talk about something as having immense value we call it priceless. There are of course also obvious challenges which don't seem to be addressed very effectively by market fundamentalism: the marginalized of the world both in our developed societies and in the underdeveloped countries, and then there is the whole question of the management of the future. And so when you consider all of those things you are left with the question of—to borrow a phrase from Lenin—“what is to be done?” I am a strong believer in what you might call the “there is no alternative” defense, the Churchillian defense of the markets. Churchill's famous defense of democracy, that it is “the worst system except for all of the others that have been tried from time to time,” in my view applies to the market. It is the worst system we have got except for the others that have been tried, and many have been tried from time to time. But the market is effective when it is a servant and not when it is the master of our destinies. I thought the communiqué that

the April 2009 Summit of the G20 produced here in London is very interesting. It is a long communiqué, and I'm really looking at the first paragraph of it which I think the historians will take note of.

CG: WHY DO YOU VIEW THIS COMMUNIQUÉ AS HISTORICAL?

SG: I'm not going to quote it for you word for word but its thrust is that we are collectively responsible for the development of the whole of the world. We believe in the importance of markets as the principal engine of social and economic development subject to proper supervision and regulation. That statement is signed by the president of the United States, the president of the Russian Federation, the president of the People's Republic of China, the king of Saudi Arabia and 16 others. And the mere fact that it includes within it a statement of the importance of markets, signed by people who represent such obviously different countries as those spread around the world, tells you what I think is a rather encouraging story. If you want to look at the difference between now and the 1930s (and I think the historians in 10, 20, 30 years' time will be comparing the world's response to these recent events with those of the 1930s) then I think you can draw a modestly optimistic conclusion at least in this sense: The world has come together across a great range of different sorts of economies, recognizing how the balance of power has shifted. This is no longer something that the G7 can sort out; it needed the emergence of the G20, and the way forward is with markets being used as a servant. There is no way back to a less globalized world.

CG: GOING FORWARD, GIVEN THE HUGELY COMPLEX AGENDA, WHAT DO YOU SEE AS THE REGULATORY PRIORITIES?

SG: There is an intense debate going on now in particular about how you make sure the financial system is stable or more stable going forward. There are all sorts of proposals for how to regulate, and many of those affect banks. Regulation may well be necessary, but it is absolutely never sufficient.

It cannot be sufficient by definition, because what you are looking for is for the practitioners, the actors in the marketplace, to have a sense of value that goes beyond simply the price to the issue of what the purpose of a business is. This is, in my view, something that companies need to ask themselves explicitly at board level and communicate properly to the people who work within the company.

The issue of how people relate to each other both within the company and with clients and with other stakeholders is absolutely important too and should be explicitly discussed at board level. Corporate social responsibility if you will, to use the phrase that has crept into the business school lexicography, is actually not some kind of appendage that has to do with the philanthropic budget; rather it is the very essence of what the business is about and needs to be thought of as such in terms of the governance and the culture that the leaders are responsible for maintaining within the company. Corporate social responsibility is essential if the company is to play its proper part in a market which is effective in terms of advancing the common good.

Christopher Gentle is head of research and Deloitte Review European editor, Deloitte LLP (UK).