

## Catherine Howarth

Catherine joined FairPensions in July 2008, having previously been Director of West London Citizens. During her seven years at London Citizens (and The East London Community Organisation) she developed a high-profile campaign for a London Living Wage, which successfully influenced a broad cross-section of stakeholders, including companies, investors, public bodies and politicians. Previously she was senior researcher at the New Policy Institute.

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## How Civil Society can Help Avert a Repeat Financial Crisis

If we ask in 2010 why, with a newly elected government facing forward to five years in office, the public sector is so significantly challenged, the most immediate answer centres on the UK's mountain of public debt. Our national debt crisis truly took off in mid-2008 when the worst global financial crisis for 80 years took hold. This plunged the economy into freefall, producing a deep and lengthy recession from which the country is only now tentatively beginning to recover. Whilst political parties in the 2010 general election campaign differed over the wisdom of when to start in earnest paying down our nation's public debt, all agreed the status quo was unsustainable and would need to be addressed in time with an unpalatable combination of tax rises and cuts to public spending.

When and where the axe should fall in the painful period ahead is bound to be a matter of intense, absorbing and factious political debate in the coming parliament. But it would be truly regrettable if a process of parallel and equally important soul searching did not take place on how to prevent another financial crisis of the kind which left the public finances in this state. If we truly value public services, including our national health service, our schools, and the presence of sufficient police on the streets, then as a society we absolutely cannot afford another Chancellor of the Exchequer feeling obliged to rescue collapsing financial institutions which took crazier and crazier risks, egged on by their limited liability shareholders.

And yet, the last 12 months have seen a range of well-informed financial commentators coming to the same rather frightening conclusion: we haven't got close to reforming the underlying conditions which triggered the financial crisis – indeed, in many respects, today's global financial system is more unstable than ever. The FT's John Authors, an avid watcher of global financial markets and natural friend of the free market, says in his new book, *The Fearful Rise of Markets*, 'the financial disaster of 2007 to 2009 has not cured any of the underlying factors that led markets to become intertwined and over-inflated and to endanger the world economy. This does not mean that another synchronised bubble followed by a crash is inevitable, but it does mean that such an event remains a distinct possibility'.

The existence of this ‘distinct possibility’ should focus the minds of all who care about the state of our public services – and, more importantly, the communities who most need them. For there is no question that financial crises and the recessions that follow in their wake are not even-handed in the pain they dole out. Some in society are more vulnerable than others, first to redundancies and then to the public service cuts which follow a fall in tax receipts and the rising cost of social security. This glaring lack of natural justice as regards those who feel the pain relative to those who caused it is one of the reasons some have lately predicted that the social unrest recently witnessed on the streets of Athens could likely spread to other countries, including the UK, as local communities start to feel the impact on public services of the bitter medicine required to steady the nerves of bond traders.

If this analysis is correct – if our public services and communities continue to be dangerously exposed to the risks of financial market instability – then there is an important challenge for progressive civil society organisations in the period ahead. This is to develop an informed critique of our financial markets and to press vigorously for lasting reform, which not only makes finance safer and more stable, but once more a useful servant of society, not the highly self-serving industry it became in the last 25 years.

This challenge has already been recognised, if not yet met, by the Commission of Inquiry into the Future of Civil Society, a two-year project which published its final report in early 2010. It hones in directly on civil society’s potential role in reshaping the financial system and in securing its emphasis on responsibility, good governance, human well-being and environmental sustainability.<sup>1</sup> Calling for a civil society sector which focuses on the creation of a ‘civil economy’, the report acknowledges that ‘the eco-system of civil society activity in relation to the financial sector is weak’. This is an understatement. Despite the enormous impact of financial markets and institutions upon each of us, it is possible to count on two hands the number of UK civil society organisations with an effective critique of the financial sector. Even fewer have any meaningful plan to address the sector’s more out-of-control tendencies and the social and environmental problems arising from them. Nevertheless, the commission’s report is the first significant public document to identify this lack of effective engagement by civil society with the financial services sector as a contributor to the excesses preceding the crash – excesses which are now fast returning.

In short, averting a repeat of the financial crisis, indeed driving into the financial sector a new emphasis on social responsibility, must now become a core concern of the UK's vibrant civil society sector.

If this can be accomplished, the prize is huge. For just as traders, bankers and fund managers have the power to be a destabilising and destructive herd, those powerful allocators of capital can be a tremendous force for social good – for instance channelling much-needed investment into infrastructure for a low carbon economy. The UK undoubtedly excels in the arena of financial service innovation, but far too much of the skill and energy found in stock broking, investment banking and in fund management (particularly hedge funds) is focused on short-term speculative activity instead of socially productive wealth creation. To question the fundamental value of much that goes on in the financial services sector has generally been off limits, taboo. For three decades politicians of all parties in the UK shied away from questioning the social value of financial innovation, but the sheer scale and ferocity of the recent financial crisis has allowed valid, indeed essential, questions to be asked at last. Adair Turner, appointed chairman of the Financial Services Authority shortly after the fall of Lehman Bros, has been particularly outspoken. In a speech to the City establishment in September 2009, he ventured to say that we must 'recognise that not all financial innovation is valuable, not all trading plays a useful role, and that a bigger financial system is not necessarily a better one.... While the financial services industry performs many economically vital functions... some financial activities which proliferated over the last ten years were 'socially useless', and some parts of the system were swollen beyond their optimal size.'<sup>2</sup>

It is in the investment of our hard-earned retirement savings that most ordinary people are exposed to the rapacious nature of much financial sector activity. With an ageing population amongst whom a rapidly shrinking minority can anticipate the luxury of a final salary pension scheme, most of us now depend on the stock markets and bond markets to deliver us from poverty in old age. Notoriously, the UK has one of the lowest state pensions in the developed world. Even when the annual uplift in the state pension is re-linked to earnings, as the Con-Lib coalition have pledged to do from April 2011, life will continue to be very tough for older people without their own retirement savings, whether a workplace pension or personal pension. Yet for working people with the discipline and foresight to save, two key

factors consistently put those precious savings at risk. First, the frequently excessive management charges of professional fund managers who invest on behalf of pension plan members. Second, financial market instability which plays havoc with people's pension savings with increasing regularity. In one week of October 2008, the value of global retirement assets took a hit of 20%. Whilst much of the paper value of those assets recovered in the booming equity market of 2009, people's savings remain all too vulnerable to another crash.

Looking forward, the question is this: must we continue to be passive victims of capricious market movements and the professional investment industry or can we, collectively, begin to wrestle back control over what is done with our money?

My answer is that we most certainly can reclaim greater control of finance. Indeed we must, both in the interests of people's personal financial security in old age and to ensure that significant private investment flows to socially productive, wealth-creating activity in the decades ahead. There are, naturally, no quick fixes here. The first challenge is to recognise the nature of the problems with financial markets and our 'swollen' financial services sector. Only then can we unleash civil society's power to address these problems creatively through democratic self-organisation. Organisations including the trade unions, the faith communities, and the UK's impressive not-for-profit sector, all have a major part to play.

History is an encouraging guide to the possibilities which lie ahead. The 19th and early 20th centuries witnessed working people organise to ensure provision of basic but essential financial services. The specific solutions appropriate then are no longer right for the 21st century, but the principle of mutual and more democratically accountable institutions for insurance and long-term savings remains a fundamentally sound one. The internet is capable of revolutionising ordinary people's control over their savings but this potential remains, for now, largely unrealised.

In 2010, as we continue to ride through a period of intense and unsettling volatility in global financial markets, the future of our public services may seem frighteningly uncertain and even beyond our immediate control. Such a perception is wrong but it is equally true that, if we want to guarantee a vibrant public sector in the future, we must take back some control of our financial markets and financial services. We must subject them to greater democratic accountability and to more pro-social values (not least in the matter of the distribution of pay and bonuses). Progressive financial services reform cannot be left to politicians and regulators alone, crucial

as those players are. It must become an active public debate in which civil society organisations and leaders have a seat at the table and a voice. Whether that is achieved is ultimately very much in our hands, limited only by our collective imagination and organisational ability.

1 [www.carnegieuktrust.org.uk/publications/making\\_good\\_society](http://www.carnegieuktrust.org.uk/publications/making_good_society)

2 [www.fsa.gov.uk/pages/Library/Communication/Speeches/2009/0922\\_at.shtml](http://www.fsa.gov.uk/pages/Library/Communication/Speeches/2009/0922_at.shtml)