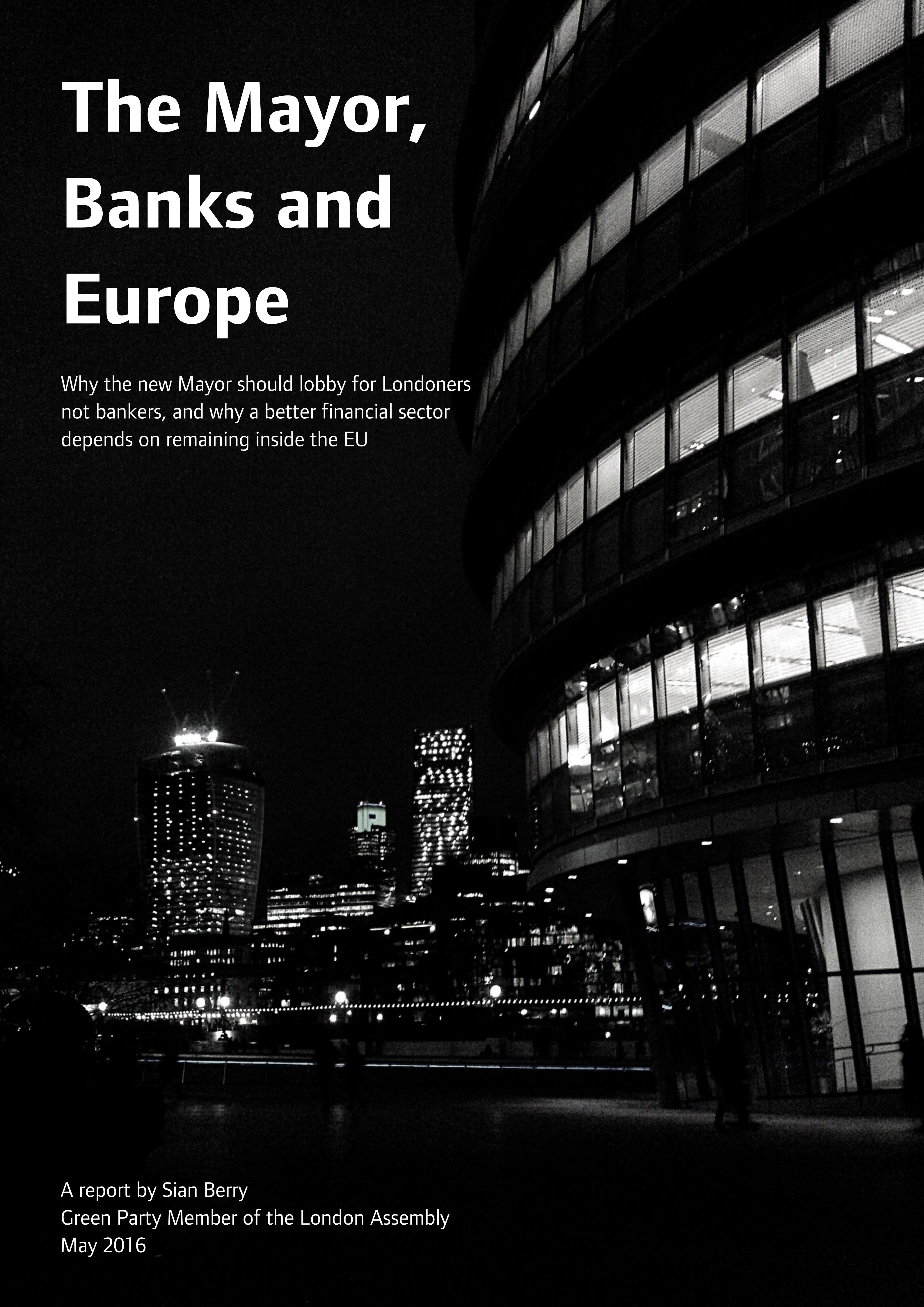

The Mayor, Banks and Europe

Why the new Mayor should lobby for Londoners not bankers, and why a better financial sector depends on remaining inside the EU

A report by Sian Berry
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Introduction

Ever since Ken Livingstone was elected in 2000, London's mayors have seen it as their role to defend London's financial services industry.

But it's the Mayor of London's job to stand up for all our 8,000,000 residents and over 900,000 small and medium sized businesses, who all need financial services to be on their side, contributing to a diverse and secure economy.

Anyone stung by the PPI mis-selling scandal, overcharged for their bank account or suffering from an economic slump triggered by out-of-control global finance has good reason to want their Mayor to fight their corner.

The one in three entrepreneurs who have been declined credit by high street banks, according to the Federation of Small Businesses, need better support. Everybody with a pension plan needs the financial markets to put profits into their funds, not into the pockets of high-frequency traders.

Boris Johnson spent eight years uncritically supporting banks and lobbying against positive EU reforms, such as a financial transaction tax and the bankers' bonus cap. Now we could face four years of our new Mayor following in his footsteps, and the prospect of the UK leaving the EU and losing many of those positive reforms.

My recommendations are:

- Now that he is Mayor, Sadiq Khan must not let himself become captured by banking and big business lobbyists, against the interests of Londoners.
- The Mayor should support the campaign for a financial transaction tax, and campaign strongly to remain in the EU so that we can be party to it. London's financial services would be stronger and work better for Londoners with the UK remaining in the EU and with our politicians lobbying for reforms like this.
- If the UK were to leave the European Union the limits on excessive pay represented by the bankers' bonus cap could be removed, worsening inequality in London. Inside Europe, the Mayor should lobby for Londoners in order to ensure this policy remains in place and is applied to more financial institutions.
- To achieve a healthier banking sector, the Mayor should look to continental Europe for inspiration and allies in reforming our banking sector and developing new ways of doing banking in London that builds a stronger more diverse economy that works for all Londoners not just a few very rich banks and bankers.

Lobbying for bankers

In his manifesto, Sadiq Khan promised to protect *"London's status as [the EU's] financial capital"*, and to *"establish City Hall as a strong voice for business at the UK and EU levels to protect our economy from unnecessary red tape and laws which could put our competitiveness at risk"*.

I'm worried that he will be following in the footsteps of Boris Johnson, uncritically lobbying on behalf of banks.

The only time that Johnson ever travelled to Brussels as Mayor was in 2009 to lobby against a proposed European directive that would regulate hedge funds to make the financial markets more stable. The Mayor made the trip to lobby in person against the directive, even producing a short video explaining his trip to Londoners[1].

He only formally lobbied the European Commission three times, and two of those were on behalf of the financial services.[2]

When you consider the number of other issues he might have raised in Brussels, from air pollution and climate change to the EU nationals trapped sleeping rough in London, it shows how exaggerated the importance of banks and hedge funds had become.

Mayor Johnson also issued a press release warning about hedge funds moving to New York or Singapore as a result of the directive, and claimed that *"were this to happen, the UK would be denied the billions in tax revenues raised by the sector that pay for major infrastructure improvements and vital public services across the country"*.

His press release cited, as evidence, *"sources close to the hedge fund industry [who] estimate that their tax contribution alone is around £3 billion per annum."* The release also cites *"those close to the private equity business"* in estimating the cost of regulatory compliance, and lists thirteen unattributed *"common concerns"*.

Why would the Mayor cite unnamed industry sources? His source was a report produced by Open Europe,[3] a think tank that works towards a vision of *"a slimmed-down, outward-looking EU which… regulates far less"*.

Now that he is Mayor, Sadiq Khan must not let himself become captured by banking and big business lobbyists, against the interests of Londoners.

Financial transaction tax

During the election campaign, the FT reported that Sadiq Khan is against *any* new taxes including the Financial Transaction Tax,[4] and CityAM reported that he thought such a proposal would be *"madness"*[5].

The idea of a Financial Transaction Tax was first proposed by James Tobin in 1972, but it wasn't until recent years that a serious transnational proposal got off the ground.

The European Commission decided to develop a tax of 0.1% on the exchange of shares and bonds and 0.01% across derivative contracts. This tax would help to stabilise the financial markets, encourage traders to focus on useful investments instead of pointless speculation, and raise revenue for cash-strapped governments.

When the European Commission published its plans for a Financial Transaction Tax, Mayor Johnson wrote to the Commission to oppose it and went to the media with his views. He suggested the tax could threaten 330,000 jobs in London, 8% of the capital's workforce, and that its costs would be felt by businesses and consumers.[6]

These figures were, again, uncritically regurgitated from lobbying groups like TheCityUK. But to arrive at 8% of jobs they need to add up every job in every financial service, from a global investment bank down to a high street mortgage broker. Few of these will be affected by the proposed tax.

Mayor Johnson also ignored the fact that most of the jobs have to stay in the UK - think of bank tellers and you get the idea. TheCityUK estimate that only a third of their tax revenues come from services that could move to another country.[7] The tax would hit those who earn their bonuses from high-frequency speculation, not the average mortgage broker.

Johnson and Khan also seem to ignore the possible benefits. For example, the tax could benefit your pension fund by reducing churn in the market. More churn means more trades, which means more trading fees, and so higher costs for your pension fund managers. It also means more short-term decisions, instead of steady long-term investments.[8]

As for the cost of the tax, the Mayor noted at the time that the Commission estimated it could reduce long-term growth by up to 0.5%. But if you assume that the tax helps to very slightly reduce the likelihood or severity of future crashes, it could actually benefit our economy in the long term,[9] whether your priority is maximum growth in GDP or more real prosperity.[10]

The UK government has strongly opposed the Financial Transaction Tax, leaving other EU countries to pursue it without us.

The Mayor should now support the campaign for a financial transaction tax, and campaign strongly to remain in the EU so that we can be party to it. London's financial services would be stronger and work better for Londoners with the UK remaining in the EU and with our politicians lobbying for reforms like this.

Bankers' bonus cap

In 2013 the European Union imposed a cap on bankers' bonuses, which in simple terms limits bonuses so they can't be greater than two year's salary, plus some deferred benefits.

Unsurprisingly, Mayor Johnson opposed the move, describing it as a *"vengeful"* policy and *"possibly the most deluded measure to come from Europe since Diocletian tried to fix the price of groceries across the Roman empire"*.[11]

The European Banking Authority produced some figures on bankers' bonuses in 2010 and 2011 around Europe. The vast majority of the capped bankers were in the UK – around 2,500 people earned an average of £1.9 million each year. They represent 0.1% of London's workforce, but took home 3% of its income. Even with the cap they will have enjoyed six-figure bonuses, more than most Londoners could dream of earning.[12]

The examples below give a very clear picture of unequal pay in London:

- If the bonus cap had been implemented in 2010 and 2011 years, the money taken from them would be equivalent to the amount needed to raise all of the 650,000 Londoners on poverty pay up to the Living Wage.
- It takes vastly different amounts of time for different professions to earn a living wage in the course of a year. An employee on the London Living Wage earns that much by the end of the year on 31 December, but the bankers in the top 0.1% of the workforce get there on 2 January.
- The Mayor earns a living wage on his official salary by 13 February, the average Londoner by the 10th August, and somebody on the minimum wage, including many cleaners working for banks, would reach the end of the year and still come up short.

Research by the LSE found that the growth in inequality in the UK has been driven by large bonus payments made to the better off, particularly in the financial services. Separate research by the OECD found that the sector was responsible for income inequality growing faster in Britain than another other rich country since the 1970s.[13]

The bankers' bonus cap hasn't had a huge impact on these appalling levels of inequality, but it was a step in the right direction.

The Mayor could demonstrate his commitment towards tackling inequality, because the debate about the cap is still live.

A 'proportionality test' means only banks with more than €50bn of assets are affected. Last year, the European Banking Authority proposed removing these national exemptions for smaller lenders and non-bank institutions in 2017.

If the UK were to leave the European Union the limits on excessive pay represented by the bankers' bonus cap could be removed, worsening inequality in London. Inside Europe, the Mayor could lobby for Londoners in order to ensure this policy remains in place and is applied to more financial institutions.

Lobbying for Londoners

The Mayor can, and should, make a clear break from Boris Johnson's legacy.

Every London resident and business needs banks that offer them a good service, and stable financial markets that support reliable pensions. We desperately need clever people to find ways to bring more investment into infrastructure like public transport, housing, energy generation and waste disposal. We are almost all taxpayers too, so we need financial services that don't plunge us into major systemic crises. They have to be effectively managed, be able to withstand shocks and even be allowed to fail without destabilising the economy.

London should be the global hub of high quality and respected financial deals, emulating the global status of our legal services for commercial deals. Our financial services should be well regarded, not seen as a global casino where anything goes in the pursuit of short-term profits.

I have proposed that the Mayor could use the GLA Group's reserves and work with local authorities to set up a regional stakeholder bank to support small and medium sized businesses and provide a secure, publicly owned option for savers. It's not healthy for a tiny number of very large commercial banks to dominate the market, and that's not how they do things in many other European countries.

Germany has a successful network of public savings banks, which are owned in trust for the public benefit, run by local stakeholder groups, and lend within a specific geographic area.

To achieve a healthier banking sector, the Mayor should look to continental Europe for inspiration and allies in reforming our banking sector and developing new ways of doing banking in London that builds a stronger more diverse economy that works for all Londoners not just a few very rich banks and bankers.

What do you think?

Please do contact me to share your views and solutions.

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