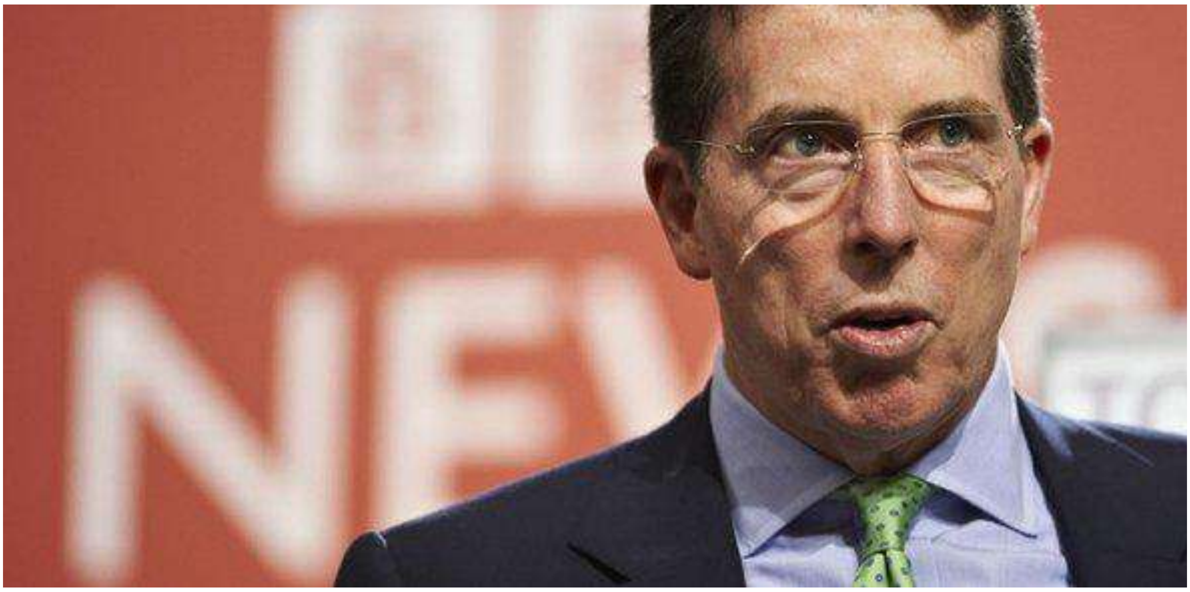
When this article was added to this site, on November 18, 2021, the audio of the lecture below was no longer available. I listened to it at the time, and the text appears to be a faithful transcript.

TODAY BUSINESS LECTURE 2011



Barclays chief executive Bob Diamond has delivered the inaugural Today Business Lecture. Read the full text of his lecture below.

Soon after the financial crisis of 2008 I was at a meeting in Washington with a group of US senators. They had invited me to provide a point of view on new regulation; regulation aimed at ensuring we never have to go through the events of 2008 ever again.
I had recently attended similar discussions with regulators and policy makers here in the UK and in Europe. While I was there, a senior economic adviser at the White House put a question to me.

"Do you think banks can be good citizens?" he said.

I wanted to answer yes, but before I could reply he said: "If the answer is "yes", think about the fact that no-one will believe you."

I did think about that - I have thought about it quite a bit over the past three years.

I want to use this opportunity tonight to share with you my views on why the answer to that

question must be "yes"; it's because the single most important thing for banks and for businesses now is to focus on helping to create jobs and economic growth; and being able to do that requires us - banks in particular - to rebuild the trust that has been decimated by events of the past three years; and that rebuilding trust requires banks to be better citizens.
I believe in this passionately.

That is why since I became chief executive of Barclays, at the beginning of this year, the management team has focused on four strategic priorities - one of which is citizenship. Would I have chosen citizenship as a key priority five years ago? I doubt it. Events of the past few years have caused me to change my mind. Let me try to explain why.

We stand today at the end of a long cycle of excess borrowing - borrowing by financial institutions, by governments, by consumers, and by businesses.

Developed economies now face the twin challenge of reducing both public spending and government deficits while at the same time stimulating economic recovery.

There is no better example than Greece.

We now know that government debt as a proportion of GDP in Greece was unsustainable at 150%, but we also have to recognise that the ratio is 100% in the US and 83% in the UK. Ten years ago those ratios would have been roughly half that.

With such high debt levels, government deficits have to be reduced - they're simply too big to be managed by increasing taxes alone.

The solution has to include a reduction in public spending.

It's no surprise then that the UK government has started doing just that, in order to avoid higher costs of borrowing.

As a result, the UK can still borrow at a rate of 2.5% while Italy, Spain Portugal and Ireland have to pay between 6% and 12%.

Think about this. This is simplified, but it's important. If the UK government had to pay 6% interest on its current outstanding debt, it would cost all of us in the UK another £40 billion a year.

That's about half the annual budget for the National Health Service.

Governments in the UK, US and Europe are working to reduce spending, with varying degrees of success and varying degrees of public acceptance.

We've seen violent protests in Greece, public sector strikes across Europe, anti-capitalist demonstrations that started on Wall Street have spread to other places around the world, including St Paul's Cathedral here in London.

Young people have been especially hard hit by high levels of unemployment.

The threat of further social unrest remains if we don't work together to generate stronger economic growth and more jobs.

In these circumstances the private sector has an obligation to generate growth and banks have a vital role to play in spurring that growth.

But for banks to play their role effectively, they need a much more constructive relationship with customers, with the public, with governments and with regulators, so that the focus can be on the future.

To have that shared focus, trust must be rebuilt.

And to rebuild trust, in my view, three things must happen.

First, we have to build a better understanding of how businesses and banks work together to generate economic growth; second, we have to accept responsibility for what has gone wrong; finally, most importantly, we have to use the lessons learned to become better and more effective citizens.

I'll talk about each one of these in turn.

I'm under no illusion that this will be easy.

Let me tell you a very quick story.

Earlier this year a national newspaper posted anonymous interviews on the internet with people working in financial services.

The interviews were carried out by an academic, an academic who persuaded bankers to talk about their life at work so that readers might come to "a more nuanced and realistic view" of what bankers are all about.

I looked on the internet to see how people reacted to these interviews. One blogger wrote to an investment banker who advises companies:

"You have neither a clue nor a care about the impact of your activity on the rest of the world. You're thoroughly self-absorbed… and utterly vacuous."

Another one said: "Does this have social value? Undoubtedly. Check the ingredients list on your bag of groceries. Find out how many companies produce them. Would they be able to do that without access to capital, without access to risk management, without reducing costs by merging with their competitors?"

I didn't say that, I want you to know that. I don't even know how to blog.

I'm talking about this now because when people have such polarised opinions it's not easy to have a meaningful exchange, so you can understand why I was anxious when I was invited to speak this evening.

My hope is that this evening's discussion can make a contribution to creating a more helpful dialogue.

I believe it is in all of our interests to achieve that because the growth of the economy - and the job creation that will come with that - depends on it.

So let me turn to my first theme: winning back trust calls for a much better understanding of the role that businesses and banks play in generating economic growth.

One recent survey revealed that 90% of people think big business is essential for the UK's economic prosperity. Yet 60% said that businesses have not done enough to convince people that they are a force for good.

Twice as many people said that investment banks do harm to the UK economy as those that said they benefit it.

With such a breakdown of trust and understanding it's difficult to know where to begin. But I'd like to start with what banks do at their most basic, because we've done a very poor job of explaining how we contribute to society.

Banks hold deposits and savings entrusted to them by individuals, by businesses, by governments and by central banks.

They put that money to work, helping people to buy homes for example or lending to businesses to invest in expansion.

They make it easy for people to use their money - imagine for a second a world without cash machines, without credit and debit cards, without currency for foreign travel.

Banks also help governments and central banks around the world to finance their spending. They enable people and businesses to transfer money and make payments, both here in the UK and internationally - 768m payments around the world each day.

They allow companies, governments and pension funds to better manage their risks and as a result keep money flowing to where it's most productive.

This is what's important - banks do these things by taking risk.

I know it sounds controversial to suggest banks must take risk, in the wake of a near collapse of the financial system, but banks serve little economic or social purpose unless they do so.

Every time a bank lends money on a mortgage they're taking risk: Liquidity risk - what if the depositor wants their money back before the borrower repays it? Credit risk - will the person be able to pay it back? Interest rate risk - what will happen to interest rates over the life of the mortgage? Market risk - will the property maintain its value?

Every time a bank gives someone a credit card they're taking risk. Every time a bank lends to a small business that needs capital to grow, they're taking risk.

It's by taking these risks, and by managing them well, that banks support customers and encourage business innovation.

When I was in Yorkshire earlier this year, I met R&R Ice Cream. R&R Ice Cream started as a small family business. Today they're the second largest ice cream manufacturer in Europe employing almost 2000 people.

They have grown by acquiring businesses in Germany, France and Poland and by investing in scalable and sophisticated manufacturing.

Their plant is one of the most amazing facilities I have ever seen.

Banks were able to support this growth by helping them invest in plant and machinery, by helping them finance acquisitions, by helping them facilitate cross border trade and by helping them manage risk.

I also met with Swann Morton in Sheffield, the home of steel manufacturing. They began in the 1930s making razor blades for the UK.

Today they import steel from all over Europe: their real expertise is precision manufacturing. The precision with which they control production is astounding.

They are now the largest European manufacturer of surgical blades, exporting to over 100 countries around the world.

They were able to invest in plant, acquire new property, import and export with the support of banks.

Sukhpal Singh is an entrepreneur I met in Cambridge who came here as a refugee from Uganda in the 1970s.

At the age of 18 he borrowed £5000 - from his father and from a local bank - to buy a car parts shop in North London.

His business is now the largest supplier of car parts in the UK with 90 branches across the country and with plans for expansion across Europe.

I've lived in England for many years but I've spent most of that time working with large international companies.

This year, in my new role, I have had a great opportunity. I have had the opportunity to visit small businesses like these all around the UK.

I've learned from these visits that the UK has strong successful businesses that are very good at accessing international markets. International trade is a large part of their business - a large part of their plans for growth.

They have shown me that the needs of small and large business are surprisingly similar. Small companies today want to be big companies tomorrow.

Tesco is a terrific example of just that. Tesco started out as a small UK business, supported by UK banks, here in its domestic market.

Today Tesco employs almost half a million people in 5000 stores across 13 different markets in Europe, in Asia and in North America.

As a result of its ability to trade and invest globally, Tesco is now the third largest retailer in the world. They need a bank to facilitate international payments - but that's not enough.

When supermarkets buy coffee from Kenya and sell it to consumers in another country they're exposed to risk; the risk of fluctuating exchange rates - the risk, in this example, of fluctuating coffee prices.

Supermarkets manage these risks with the help of an investment bank.

I share these stories because I believe they illustrate the contribution that banks can make by working closely with businesses.

But the principle also applies to other organisations.

Let's shift, let's talk about a pension fund: Pension funds need returns on their investments of about 7% in order to honour their liabilities; in other words to pay savers their pensions. At a time when interest rates are close to zero in developed economies and equity markets continue to be volatile, pension funds need some alternative way to deliver those returns. Investment banks help them to access a broad range of investments in order to do just that. Interestingly, it's not really much different with governments: When the UK or US government issues bonds to fund a deficit, the buyers are not solely in the UK or the US - they're in Asia, Europe, Latin America and the Middle East.

Investment banks provide direct access to these buyers. They make markets to auction these bonds so that governments obtain them for the best price and investors will only buy if they know they can sell these securities back when they want to.

So banks make sure that is easy by establishing a large consistent market of buyers and sellers.

To do this they put capital at risk in order to discover what the market is willing to pay. When banks do this well, interest rates are lower. If interest rates are lower, government and business borrowing costs less.

Without this, the result is clear - an increased cost of borrowing, higher taxes, lower public spending, slower economic growth and higher unemployment.

Providing this kind of support to clients requires banks to take risk but this is not speculative trading, so it bothers me when these activities are caricatured as gambling.

These activities serve a social purpose and meet a real client need whether they are carried out on behalf of governments, pension funds businesses or individuals.

Why is all this important? Why are we talking about this? Because at a time when governments are reducing spending, banks have an especially critical role to play in supporting businesses:

Businesses that show real ingenuity and entrepreneurship.

Businesses that can deliver growth.

Businesses that hold the key to creating more jobs and generating economic activity.
The opportunity is here. It is our responsibility to seize it.

At the same time we have to accept that the financial crisis in 2008 resulted in a widespread loss of trust in banks in particular, and in the workings of the market economy more broadly.

So let me turn to my second theme.

The second thing we have to do to restore trust is to accept responsibility for what went wrong.

A lot has been written about the causes of the crisis, there have been many thoughtful contributions to help us understand what happened and I could not do justice to the topic in the time I have today, so I'm not going to dwell on this.

What is important is to learn from what went wrong.

In very simple terms, it's important to demonstrate that we get it.

A lot of that learning has already been included in new financial regulation - regulation that I personally welcome.

Let's make no mistake about it - strong banks want strong regulation.

No taxpayer money should ever again be put at risk to rescue a failed or failing bank.

I understand why many people wonder if anything has really changed. But the reality is - much has changed.

Today banks are not borrowing as much, they have significantly more capital, and they have far more stable and liquid sources of funds to lend.

Pay structures are changing, so risk and pay are better aligned to ensure there are not rewards for failure though clearly levels of pay within the industry are a real cause of real concern and ongoing debate.

There's greater understanding of where assets are held in the financial system. Banks today are safer and sounder.

But that alone is not enough.

I knew that day I went to Washington to talk about regulation that, just as banks had a role to play in the crisis in 2008, they also had a critical role to play in putting things right. That day I came to the firm conclusion that banks - and the private sector - would have to adopt a broader set of objectives and responsibilities in order to truly restore trust. They would have to become better citizens, my third and final theme.

For me becoming a better citizen means three things:

First, it's about how we behave, especially with our customers and clients; second, it's about what we do, and in particular how we help those customers and clients create jobs and economic growth; and third, it's about how we contribute to the communities we serve in many other ways.

I know how angry customers are about issues such as Payment Protection Insurance. That's why we are working hard to clear claims as quickly as possible.

We want to put things right. But we know it's not enough just to apologise. We have to try to make sure that things like that don't happen again.

In part that comes down to culture.

It's a very personal thing, but throughout my career - from my time as a teacher, to my time as a banker - I have seen just how important culture is to successful organisations.

Culture is difficult to define, I think it's even more difficult to mandate - but for me the evidence of culture is how people behave when no-one is watching.

Our culture must be one where the interests of customers and clients are at the very heart of every decision we make; where we all act with trust and integrity.

But it's not just about how we behave towards our customers and clients. It's also about how we work together with our colleagues, because if you have to deliver for customers with 150,000 colleagues around the world, as we do, you better be able to work as a team. As far as I'm concerned, if you can't work well with your colleagues, with trust and integrity, you can't be on the team.

Culture truly helps define an organisation.

I talked about my views on citizenship and culture recently at an international conference. This led to an interesting discussion with Michael Porter, who is a professor at Harvard. We talked about the connection between my views and what he terms shared value where businesses create economic value and profit in a way that also creates value for society. Let me give you some examples of shared value from the world that I know best, which is banking.

Nowhere is this more vivid than in sub-Saharan Africa. Barclays has banks in 12 countries across the continent and one of my first trips this year was to visit our operations there. In Mozambique, small-scale local farmers are responsible for about 90% of food production but many of these farmers have very little certainty about the price at which they can sell their crops. They often have to sell at distressed prices immediately after harvest and without any certainty of income, their ability to reinvest in their business is very limited. They badly need a solution to the volatility of food prices.

In order to address this problem, banks support an agricultural cooperative called Ikuru. The banks provide a loan so that Ikuru can guarantee the price for crops from local farmers before they harvest.

This price guarantee gives farmers enough financial security to reinvest in more seeds, more fertiliser and to continue farming all year round.

Supporting Ikuru helps create a stable supply of food at stable prices for the people of Mozambique.

At the same time it allows us to grow our business there in a responsible way.

Here in the UK, over a third of farmers want to invest in renewable energy in order to reduce their energy costs and to generate income by selling electricity back to the grid. We recently created a £100m fund to encourage them to make that investment. We're now working with the National Farmers Union and others to consider loan applications.

This helps to reduce carbon emissions so it's good for the environment, it contributes to the UK's long term energy security, it helps farmers reduce their costs and secure an additional income, and it also makes commercial sense for us.

This is a perfect example of how good environmental practice can make good business sense as well.

My third example concerns a series of lending clinics that we run around the UK, helping businesses to apply for the funding they need to invest and grow.

This is one small part of reinvigorating the UK economy.

The clinics provide an opportunity to meet business angels who can provide capital. They also help people to build a business case, to think about how they could use a loan. To think about how they will manage repayments.

Gavin Smith, for example, runs a small greetings card business with turnover of about £700,000.

He wanted to expand but was uncertain how to do so, in particular how to build a credible business plan.

He heard about the clinics on the radio and came along for some advice.

It turned out to be good for him and good for us. He now has a business plan. We have a new customer.

Those three examples focus on commercial lending - investment banks also create shared value: One of our utility clients in the US, was an early investor in alternative energy. Today they are one of the largest developers of wind-farms in the world.

They were only able to make this investment by using commodity derivatives to protect their profits against swings in future energy prices over a 10-year period.

Think also about how an oil producing country like Mexico manages volatile oil prices.
In recent years oil prices have risen to $145 a barrel, they then fell to $40 a barrel - today they're at about $90 a barrel.

Helping Mexico to lock in the oil price before it fell, enabled them to preserve their credit rating, preserve their budget, and preserve their education programme.

These stories illustrate all three things that being a good citizen entails for me: It's about treating customers and clients with integrity, it's about helping them to create jobs and

economic growth, and it's about making a contribution to the communities we serve.
I've used these examples from banking because this is the world that I know best. But I can assure you, other businesses are thinking in a similar vein.

I recently sat on a panel discussing food sustainability in Africa with Paul Polman, the chief executive of Unilever. This is what he has to say:

"We have ambitious plans to grow our company, creating jobs and income for all whose livelihoods are linked to our success.

"But growth at any cost is not viable. We have to develop new ways of doing business which will increase the social benefits from our activities."

Indra Nooyi of PepsiCo, who was with Paul and I on the panel - she calls her approach "Performance with Purpose" where purpose is woven into every activity in the company.
This has led PepsiCo to revise their product range, prioritise saving water and energy, and place a special emphasis on treating employees well and creating employment opportunities.
In 1970 Milton Friedman - who happens to be one of my favourite economists - wrote an influential article saying that the only social purpose of business is to increase its profits.
He dismissed well-intentioned philanthropy as "hypocritical window dressing".
I disagree with him on this.

The ideas I've talked about this evening are commercial ideas that address a social need. In other words -business leaders are asking themselves - given what we do, what we're good at, and where we operate, what are the issues where we can add the greatest value to both society and our company?

There's increasing momentum behind them and ongoing debate taking place in boardrooms and at conferences around the world.

Consensus is growing that businesses must increase profits in a way that creates sustainable shareholder value, not just short-term gain.

And for me, the best way to create sustainable shareholder value is to focus on the interests of the customers, clients and the communities that we serve.

I can tell you honestly that this is not always easy or straightforward.

The challenge for all businesses lies in balancing our obligations to all their stakeholders and there are often some difficult trade-offs.

I can't talk for every business but let me give you some examples of the sort of dilemmas that banks face.

One of our clients is a haulage firm who has banked with us for about 40 years. Last year they lost one of their major customers and their turnover plummeted.

They reduced their fleet size, the number of employees, and number of depots but they were still unable to meet their lending agreements.

We extended overdraft facilities of almost half a million pounds and we introduced turnaround professionals to work with them in order to cut costs, implement efficiencies and find new clients

Ultimately market conditions deteriorated and the strategy failed.

We took a risk to support a client with whom we'd worked for 40 years. As a result we lost £750,000.

There's also the challenge of lending to new businesses. In the first six months of this year, banks supported the start up of 265,000 new businesses in the UK.

Think about that number - 265,000 businesses starting in the UK this year because of a loan from a bank.

Of course lending is what we're here for. But think about this: 50% of start ups close within three years so the risks in this business are considerable.

Balancing our responsibility to both customers and shareholders can be challenging, and remember those shareholders include pension funds - pension funds that help millions of people around the world save for their retirement.

I have also spent some time thinking about what it means to be a good citizen when part of the business is local - so the community is tangible - and when part of it is global - so the community is harder to define.

Of course it's easier to determine responsibilities on a local basis and there's often political pressure to do just that - politicians, after all, represent local constituencies.

But being a better citizen might mean weighing our obligations to a global community as well as to one that's local.

As chief executive of a bank with international operations I think of our community as all those we impact - not just those locations where we live and work.

I've talked this evening about three things that can help to restore trust:

Building a better understanding of how businesses and banks work together to generate economic growth; accepting responsibility for what has gone wrong; and using the lessons learned to become better citizens.

Restoring trust is especially important now because this is the moment. This is the moment when banks, businesses and governments absolutely must work together to move the onus from the public to the private sector, to create jobs and economic growth.

For banks and businesses to play their full role they must restore trust. That is why I care so much about citizenship.

Last week the Confederation of British Industry published a report that painted a vision for "the UK's army of mid-sized businesses" - a vision of innovation, growth and international trade.

With the right encouragement, the right skills and with access to capital for long-term growth, they believe this sector can generate £50bn over the next 10 years.

These businesses account for two-thirds of new jobs. These businesses account for 60% of private sector employment. They hold the key to kick starting economic recovery.

We have a strong and imaginative business community here in the UK. We should all commit to supporting them with confidence.

As the leader of a bank, with 150,000 colleagues - a bank that has been headquartered here in the UK for 320 years - I am ready to commit, we are ready to commit.

I know many of you will listen to what I've said and question how much things have actually changed in the last three years.

There has been substantial change but I'm also the first to admit that we don't have all the answers.

I believe over time we will judge the success of businesses, including banks, on the basis of broader measures and values.

I hope this occasion generates further debate about how we can engage meaningfully with the customers, clients and communities that we serve.

To the question "can banks be good citizens?" the answer must be "yes". But I'm mindful of what was said to me three years ago: "Bob, think about the fact that no-one will believe you."

We're in the early stages of working to restore trust.

I'd like to be able to say we're achieving that, but I know that for you, seeing is believing. You may not be able to see what's different today, but over time I very much hope you will see that and more.

Thank you very much.

http://news.bbc.co.uk/today/hi/today/newsid_9630000/9630673.stm