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**REPORT ON LEADERS IN SOCIETY/2010**

Round Table

*“Leaders and the economic crisis”*

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**LONDON SCHOOL OF ECONOMICS**

*London, 7th December 2009*

## REPORT ON LEADERS IN SOCIETY/2010

### ROUND TABLE

#### **“Leaders and the economic crisis”**

*LSEE - Studio Room, 8th Floor Tower 1  
London School of Economics  
Houghton Street  
London*

*7<sup>th</sup> December 2009,  
1 p.m. – 3 p.m.*

*Management Club Association, within the framework of its research activities on the 4th "Report on leaders in society" to be published in 2010, conducts a series of focus groups in Italy regarding the selection, training and mobility of the Italian "ruling class" in the current crisis.*

*To add to the contents of the Report an international perspective, round table discussions and comparison of experiences are held with panels of experts, leaders, entrepreneurs, and media representatives in France, Germany and the United Kingdom.*

## **Agenda**

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### **Opening Remarks**

- Giuseppe Perrone, *President of Management Club Association*

### **Welcome and introduction**

- Raffaella Nanetti, *Professor of Urban Planning and Policy, University of Illinois at Chicago (UIC), EsocLab Senior Research Associate*
- Robert Leonardi, *Director, EsocLab, London School of Economics*
- Nadio Delai, *Scientific Coordinator "Report on leaders 2010"*

### **Participants**

- Adam Steinhouse, *Vice-Director of Government School, London*
- Alberto Bertoli, *Vice-President, Candy Hoover*
- Anthony Travers, *Director, Greater London Group, London School of Economics*
- Carlo Carboni, *Professor of Economic sociology, Polytechnic Marche University*
- George Buckley, *Chief UK Economist, Deutsche Bank*
- Giovanni Lo Storto, *Vice - General Director, LUISS University*
- Ian Begg, *Professor of economics, London School of Economics (\*)*
- Janet Henry, *Chief UK Economist, HSBC*
- Leonardo Simonelli, *Director, UK-Italy Chamber of Commerce*
- Marco Niada, *London correspondent, Sole24 Ore (\*)*
- *Other entrepreneur and economist at Lloyds TSB brought by Simonelli. To be announced.*
- Rob Lewis, *Greater London Authority, Head of Data Management and Analysis*
- Robert Hancke, *Prof. of political economy, London School of Economics (\*)*
- Robert J. Liddle, *Director, Policy Institute, London*
- Sir Rocco Forte, *President, Rocco Forte Collection*
- Stefano Carcascio, *Director, Bank of Italy, London*

### **Scientific and organizational secretary**

- Giorgio Neglia – AMC [neglia@managementclub.it]

***Esoclab - observers and support staff***

- Anna Chimenti, *Visiting Research Associate, EsocLab*
- Maria Rita Circi, *Visiting Research Associate, EsocLab*
- Simona Milio, *Associate Director, EsocLab*

***Participant unable to attend (to be interviewed in Oxford)***

- Sir Ivor Roberts, *President, Trinity College, Oxford University*

**Notes of introduction to the roundtable on  
'Leaders and the economic crisis in the UK'**

7<sup>th</sup> December 2009  
London School of Economics

Premise

The specific purpose of the roundtable is to discuss how the financial and economic crisis has affected the views and behaviour of the UK's economic, managerial, and political leadership in order to understand the leaders' perception of the crisis as well as their reaction to it.

The general purpose is to assess the impact of the crisis on the existing decision making structures concerning public policies, but also private financial institutions and industrial and commercial firms operating in the UK.

Therefore, the focus of the discussion is on the UK 'leaders' and their views and behaviour before, during and after the crisis.

Context

In 2007 the financial services industry accounted for 28% of the GDP and half of the GDP recorded in the UK in 2006, the manufacturing sector for 17%. It was by the end of summer 2007 when the turmoil that hit financial markets in the spring was predicted to spill over into the UK economy. Insights were provided by the rapid slowdown in the housing market, impending job cuts and a clampdown on bonuses in the City. While the global credit crunch was predicted to move mortgage rates up, class action suits were expected to be launched against the directors in the financial, banking and insurance sectors for failing to exercise due diligence in protecting their companies and the public. Yet, the extent to which the financial turbulence was going to affect the 'real economy' was still in doubt, to the extent that on August 24, 2007 the CBI disclosed that manufacturing output had been up in the month, there was innovation in the sector and higher productivity, and the underlying economy was sound. The strength of the pound was helped by the weakness of the dollar.

The year brought on a deepening of the financial crisis in global markets, depression in the US housing market and marked weakening of the US economy, and a steep increase in fuel and commodity prices. By the end of

summer 2008 the UK government had intervened with the utility companies and winter fuel allowances to help low income families, the elderly and the disabled pay energy bills. While on September 4, 2008 the Prime Minister was expressing cautious optimism about the strength of the country's economy and the prospect of weathering the global crisis, in the US ten days later a string of rapidly successive events threatened to overwhelm the global financial system. Wall Street suffered the heaviest loss in share prices since the aftermath of the September 11 attacks, the prestigious bank Lehman, Merrill Lynch was forced into a takeover by Bank of America, and the Federal Reserve first and then the US Treasury stepped in to arrange a rescue package in an effort to save insurance giant AIG from bankruptcy.

The impact in the UK was almost instantaneous, as the FTSE 100 index fell 4%, Lehman UK closed down eliminating 5,000 jobs, and the UK's biggest mortgage seller HBOS came under pressure from speculators. The Bank of England intervened making 5 billion pounds available to support the banks, the Financial Services Authority closed ranks with the US authorities to assess the impact of the downfall in stocks on London. Shortly afterwards, on September 26 before the United Nations General Assembly the Prime Minister was lambasted the 'age of irresponsibility' and the culture of greed which had created the crisis. Reversing what Chancellor Merkel and President Sarkozy had criticized Brown's previous hesitance, Gordon Brown called for a new international system of regulation based on transparency, integrity, responsibility and open banking practices, while endorsing on the part of the UK the approach of assessing and intervening in the problems of individual financial institutions rather than a package targeting the financial system as was being pursued by the US.

In early October the impact of the crisis hit the City full force. Up to 90 billion pounds of value was lost for British companies in the worst day of trading since Black Monday in 1987. The Bank of England stepped in to begin coordinating with banks around the world in an unprecedented prime rate cut. At the hastily called meeting in Washington of the G7 Finance Ministers the sense of foreboding that the global financial system was on the brink of collapse was palpable. The political agreement reached was to use all policy means at the disposal of governments in helping banks with taxpayers' money by injecting public funds to jump start the frozen credit markets and to facilitate the provision of needed credit for families and firms.

In January of 2009 the UK officially entered into a recession (January 23) when data from the Office of National Statistic showed that the country's economy has shrunk during the last two quarters of 2008. Meanwhile, bankruptcies had hit 'main street UK', exemplified by the demise of historical retail enterprises such as Woolworths and Waterford Wedgwood, and heavy employment losses in manufacturing were beginning to hit families. In the following two months the unemployment crisis accelerated when more jobs were lost in the retail and other sectors, companies were forced to cut working hours, and the deepening of the recession brought the number of unemployed over 2 million. By mid-spring 2009 organized social protest was taking place in the form of factory roof sit-in and mass demonstrations in London and Birmingham. By August, as insolvencies increased, the housing industry continued to shrink, and the unemployment total reached almost 2.5 million, the Governor of the Bank of England for the first time openly accused the banks of deepening the economic recession.

The stand taken by the Governor of the Bank of England appears to have produced a change during the last two months, including a sombre reassessment of the first indicators of recovery. The Governor himself came out more forcefully once again in mid October arguing that banks had grown too big for the country's interest, that the regulatory path being politically endorsed by world leaders would not be sufficient to avoid a repetition of the current crisis, and that instead banks needed to be split into smaller groups that were functionally specialized . In this fashion, 'bread and butter' retail banking could be underwritten by taxpayers' money, while more speculative banking (the 'casino' banking) practices would not. Shortly afterwards, in early November the Governor went on to state that the country had just started back on the road to recovery from the 18 months of downturn, and that it was committed to a process of recovery that would bring a new balance to credit markets and consumer confidence. These themes by the Governor have been followed by proposals to give the Financial Services Authority added powers to even rewrite individual contracts for banks partially nationalized, when contracts for example, contain bonus provisions which add to risk. The Prime Minister himself on November 7th, speaking at the G20 finance ministers meeting in St. Andrews appeared to be backing the idea of a global tax on financial transactions in order to reduce the size and volatility of the global financial markets. At the same time, in the new European Union

Commission which started work on December 1, Michel Barnier holds the Internal Market and Services portfolio, an outcome which has rattled the City.

As we meet today, December 7, a few final thoughts are in order. First, the country's economy is still technically in recession though there are signs of recovery albeit not in employment. Thus, there is a growing perception of the spectre of a jobless recovery and unpredictable social consequences. Second, the discourse among the country's leadership on the course to pursue towards 'normality', that is the new balance to be struck between regulation and chance at self-recovery of the financial sector, appears at the moment to favour the former, although the results of the spring 2010 elections may change that further. Third, the discourse on the post-recession and long-term strategy which the country should pursue regarding the mix of sectors making up its future economic base does not appear on the horizon, even as part of the political campaign. Fourth, the social sector seems at the same time to be more fractured and to have lost ground in this overall general discourse, save for making itself heard temporarily at the times of street demonstrations. And fifth, the cultural leadership of the country has sat on the bench too. Perhaps the severity and the global nature of the crisis have contributed to the attitudes of academics to maintain the discourse on it within academe itself, rather than mainstreaming it into the general political discussion regarding its causes and solutions. Considering some of the issues sketched above, we would like to offer to the discussion among the round table participants the following questions, in order to better understand the future of UK policies and system of values and elites.

#### Questions of interest for the discussion

1. Who are the 'leaders' in the UK? How recognisable and legitimate are they?
2. Before the crisis, what debate and views prevailed about the country's leaders? What were the leaders' norms of behaviour?
3. Has the financial and economic crisis changed any of that?
4. Looking beyond the crisis, is the composition of the leadership in the UK likely to change? That is, to what extent if any has the crisis placed into question the existing social and economic structure and the role of elites in the system?

Corollary questions

What new policies emerged in answer to the crisis?

What are the alternatives that should be pursued?

Is the role of London as the major financial centre in Europe in jeopardy?