

# Margareta Pagano

CITY COMMENT



Stripping Fred Goodwin of his title was unquestionably a piece of political theatre, one callously contrived to appease the public supposedly howling for bankers' blood. It's been done as a conceit to buy future votes and has more in common with the way those in the Wild West scalped their victims than the judicial process you would expect to find in a mature democracy like the UK.

The backlash to Goodwin's treatment is interesting too. Most critics - on left and right - claim it shows that the UK is anti-business and anti-wealth. To my mind, the more potent reason for objecting is the way it has undermined our principles of being innocent before being found guilty, the basis of our social contract. Why didn't the Government pursue all the appropriate measures possible to establish

'Are all the other RBS and HBOS knights going to be punished too?'

whether Goodwin has committed a crime, or acted out of gross negligence or professional misconduct, before going ahead?

Indeed, why hasn't it set up its own independent commission to investigate the crash?

So far, the Financial Services Authority has found no evidence of criminal activity, either by Goodwin or by other directors. But there could be civil actions. Vince Cable's Department for Business is investigating whether Goodwin, or any ex-RBS directors, broke the Companies Act - and this could yet lead to legal proceedings. Why didn't the coalition wait for this result?

There was no obvious pressure on the Government to act now, but a cynic might suggest that some spin-doctor in the bowels of No 10 thought it would be a clever antidote to all the fuss over Stephen Hester's bonus, and the bonus season coming up in the next few weeks.

However, the coalition may have scored an own goal. For now it has to answer whether all the other knights involved at RBS, and in the HBOS collapse, are going to be punished too. Why not? You could argue that Lord Stevenson and Sir James Crosby at HBOS were as incompetent as the directors running RBS. Lloyds investors are now champing at the bit to take former chairman Sir Victor Blank's title from him. On Goodwin criteria, stripping them all of their titles is logical.

If the Goodwin decision is to have any meaning at all, then the coal-



## The unknighting of Fred can only be redeemed by genuine reform

Stripping Goodwin of his honour was contrary to natural justice and the least the coalition can do now is ensure our dysfunctional financial system is fixed

tion needs to think more carefully about how to reform the dysfunctional financial system which allowed him to receive a title in the first place.

Add toxic to dysfunctional. Analysis just published by Media Tenor, the media intelligence experts, shows the reputation of the financial and banking sector is now far worse than that of the tobacco and chemical industries at their lowest. It's not

only the bankers and their bonuses that the public consider toxic, but the products they sell. Called *Trust Meltdown*, the research goes further, suggesting that unless the banks' boards start cleaning themselves up, they are dangerously close to losing their licences to operate. If you look at the price of banks' shares, investors seem to agree.

So what can be done? Well, Profes-

sor Mariana Mazzucato, of Sussex University, has come up with some bold ideas which should be required bedtime reading for all MPs. After a three-year study into the causes of and lessons of the financial crash, Mazzucato and her team published the final Finnov report last week. In it, she puts reforming the performance indicators used by financial markets right at the top of her list for

reform. She claims that changing the links between risks and rewards led to the extraordinary financialisation of the economy, meaning that the financial-services sector took out value at the expense of industrial growth. It's this practice that has undermined investment in productive activity, and destabilised the economy.

Here's the nub of her challenge. Until recently, it's become the orthodoxy of most Western economists - and the business schools at which they preach - that shareholders are the only participants in the corporate economy who bear risk. But she says this is a false claim, and that workers, who also contribute their skills and efforts in the innovation process, are owed a return too.

When highly paid chief executives - such as Goodwin and Hester et al - are asked for a job description of what they do, they will inevitably say "maximising shareholder value". But

'High pay doesn't make chief executives create shareholder value'

Mazzucato says that's a purely ideological view, not a proven economic one. What the chief executives are in effect saying is that of all the economic actors who contribute labour and capital to the company, it is only shareholders to whom the market does not guarantee a return, and hence only shareholders who bear risk.

This is no longer true. In the new flexitime economy, workers are perpetually at risk - their jobs are no longer guaranteed, nor are their pensions, so they are constantly contributing capital and labour without any guaranteed return.

What's refreshing about Mazzucato's analysis is that it gives the debate over wide pay differentials backbone. There's no question that the pay-and-bonus culture within the banking industry - and elsewhere - was behind the frenzy of the past two decades which saw irrational behaviour such as RBS's bid for ABN Amro. It's time companies and shareholders woke up to the fact that high pay doesn't make chief execs create shareholder value - just look at the audacious pay rise being awarded to Sly Bailey at Trinity Mirror, yet its share price has halved and jobs are being lost.

These bosses are taking value out of their companies at the expense of value creation and the taxpayers and workers who have contributed to it. Having such highly paid chiefs is not just wrong, but deeply damaging to innovation, growth and competitiveness. Only when that is understood, and acted upon, will Fred's head have been worth the chop.