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# Business

BACKING BUSINESS AND ENTERPRISE

## The fee pool: London's essential export

**T**HE City of London has a proud reputation as a bastion of commercial certainty able to attract investment from every corner of the globe.

Indeed it is for this reason that the recent Libor, money-laundering, and derivatives mis-selling scandals may have inflicted potentially lasting damage on the City, for they chipped away at the key ingredient of London's success: trust.

Trust that rules, contracts and laws are respected; trust that goal posts won't be moved; trust that commercial competitors are treated equitably.

It is the same reason why, if investors sense that UK policy is governed more by sentiment and the news cycle than by strict rules enforced evenhandedly, we shall all be the losers. Fashionable it may be. But banker bashing and public hostility to wealth creation is doing lasting damage to the UK's economy.

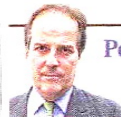
These points were driven home by David Wootton, the Lord Mayor of London, when he wrote this summer about a business delegation he led to Russia. With its vast natural resources, that country has enormous potential. But, Wootton observed, it lacks a

developed service industry and, most crucially, a predictable investment environment. Russians he spoke to hungrily consumed the message that the rule of law is key in creating the stability, predictability and clarity that business needs.

Here lie two key lessons for the UK. First, there are enormous markets for our financial and professional services industry to tap: markets that require the expertise we can offer to reach full potential. Second, that our open commercial climate, so carefully nurtured over centuries, is an asset we can ill afford to lose.

Amid all the fierce debate about the greed of bankers, it is easy to forget what banks actually exist for, what we mean by "the City". Fundamentally, a bank assists companies and individuals in managing their finances. It acts as an intermediary between those who seek capital (expanding businesses, governments wishing to fund services) and those who have surpluses that they wish to enlarge (investors, savers, pension funds). In short, banks circulate money, dispersing it to areas of an economy that require it, and provide the sense of security so crucial to confidence.

The City has grown to provide that role not just for the domestic



Personal View  
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market, but for the global economy.

As a hub for the circulation of money, a centre ruled by English law, people want to do business here. When deals are being struck and money lent, people need lawyers and insurers. They require risk analysts, taxation advisers, fund managers, share dealers.

With such a concentration of expertise in one compact geographical area, companies want to be headquartered here.

Those companies need accountants, auditors, management consultants and pension advisers. With legally sound deals, insured trading and access to growth capital, businesses large and small have the confidence to expand.

City professionals go on to spend money on housing, restaurants, culture, education, domestic services. Many engage in philanthropy, to the enormous and lasting benefit of London's galleries and museums and charities.

To give some perspective, the financial and associated

professional services sector in 2010 contributed 14pc to the UK's GDP, comprised 7pc of total UK employment (more than two-thirds of it outside London) and contributed £63bn in tax revenue in 2010/11. The City is not only creating wealth but it is distributing it, principally by directly and indirectly employing millions of people and paying taxes.

Crucially, in financial and professional services, we run a trade surplus of £43bn and one third of financial services' GDP contribution arises from exports – services provided to overseas clients.

So if we want to measure the success of the City, we ought not look at the size of bankers' bonuses, but instead at the size of the City fee pool – the revenues generated by bankers, lawyers, accountants, insurers, PR advisers, arbitrators and consultants. It is that fee pool that has huge potential to grow.

Just think of the opportunities. In China, the new rural pension scheme has acquired more than 240m people in only two years – that is more than the number covered by America's entire social security scheme. As the Chinese economy matures, there will surely be an ever greater demand for private pensions and more

dynamic investment products.

Undeniably, questions remain about how well our banks have fulfilled their primary function as service providers. The financial crisis uncovered serious regulatory and cultural flaws. But one of the reasons that so many recent scandals seem to have their origins in the City of London is simple: the sheer scale of business conducted here.

Regardless, the past four years do not obscure the fact that our economy needs the financial and professional services industry – not as a necessary evil to be tolerated, but an absolutely fundamental cog in the functioning of our economy. If we want to know where growth is going to come from, we need look no further than the City's fee pool.

One last thing. When people talk about weaning ourselves off the City, we might well ask how the Treasury will compensate for the loss in tax revenue while continuing to provide cherished public services? So far, the answer seems to have been to borrow more – an action necessarily facilitated by the City.

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