

THE SENIOR WARDEN'S SPEECH AT THE CUTLERS' FEAST
ON 21 MAY 2009



Master Cutler, Lord Lieutenant, High Sheriff, Lord Mayor, My Lords, Ladies and Gentlemen,

Having listened to a number of these speeches over the years, a few months ago, I realised that this one was going to be quite different. Not only because of the unique economic conditions we all now face, but also because the Bank of England, represented by our principal guest this evening, is right at the centre of this crisis and, we hope, part of the solution to it.

Most of us have probably been through some sort of economic recession or depression. But this one is not the same and judging by the news flow of the last few weeks, the economists, politicians and financial wizz kids are still trying to agree on the right solution.

The globalisation of the world's economies has meant changes in economic circumstances in one major country, now affects the rest of the world in some way or another. So unless the world's largest economies agree to work together, I suspect we are in for a bumpy ride for some years to come.

The recent G20 Conference did, to a limited extent, demonstrate some harmony in ideas although whether this was a result of fear or real political will to work together, we shall have to wait and see.

In the UK, there has to be a concerted effort to get confidence back into the financial system as well as confidence in the ability and integrity of the people managing and regulating it. That confidence needs to be accepted, not only by those involved, but by the ordinary businessman and consumer, who are at the sharp end of the real economy, on which this region is founded.

The recent revelations in the Budget about the true levels of Government borrowings and likely future requirements, seemed to the ordinary mortal, another nail in the coffin of a recovery in the short term, especially as a lot of the country's reserves have been used to shore up the ailing banking system, of which more later.

So, how is all this economic turmoil, lack of credit and uncertainty affecting this region and especially the manufacturing industries that have been here for so long?

Some companies, who are providing unique products and services globally, such as Davy Markham and Sheffield Forgemasters, would seem to be doing relatively well. ASSEAL have just won 4 Queen's awards for industry. Peglers in Doncaster have just obtained some further funding for investment in new machinery.

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Other more traditional companies, had, until the last quarter of 2008, also been doing quite well, buoyed by the currency advantages and the Sheffield name and branding.

However, over the last six months, orders, especially exports, have fallen off a cliff, resulting in record corporate insolvencies in the first quarter of this year and huge redundancy programmes, layoff's and short time working in many of our best and most competitive of companies.

The particular sectors that have been hardest hit are those who supply consumer goods and those involved in the car industry.

Whilst the decline in manufacturing output has slowed in the last month, according to the latest CBI survey, there are still too many conflicting views to be certain about anything.

Last week's gloomy forecasts by the Governor seemed to be at odds with the Treasury. Even the economists can't agree where we are, as just last week, some were still predicting, and I quote "depressed demand at home and abroad, worsening cash flows and very tight credit conditions", whilst others this week called the end of the credit crunch. Not exactly the clearest sense of direction necessary to create confidence.

I am very conscious of the background of our principal guest here tonight and the presence of many other guests we have from banks and other great institutions in the financial and political world, many of whom are valued Friends of this Company. However, I am sure that none of them would expect to be in Yorkshire at this present time and not hear some criticism of those in charge of our economy and financial system.

Whilst much of the blame inevitably must fall on those executives, who were running our banks, to paraphrase the Senator, who chaired the Enron enquiry in 2001, who asked, somewhat incredulously, in his summing up, "Where were the politicians, where were the FSA, the Treasury and the Bank of England, where were the Audit Committees and, I am ashamed to say, the NED's,where was common sense?"

Having seen the Select Committee hearings, everyone, as you would expect, is blaming everyone else, including Deputy Governor, I am afraid to say, in part the Bank of England.

The Bank's official website states quite clearly that the core purposes of the Bank are to ensure monetary stability and to contribute, with others, to financial stability.

The first objective relates to managing inflation, the currency and the price of money using, if I may say so, the fairly blunt tool of the interest rate mechanism. I would think that most of us in the room would agree that over the last decade the Bank has been very successful in doing this, given the very restricted options it had at its disposal.

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The second objective is to maintain the stability of the financial system, which the Bank has been doing for over 300 years. Together with the FSA and the Treasury, the Bank is intimately involved, in collecting data, monitoring performance and ensuring liquidity so as to manage overall financial stability.

The three participants, I believe, have not been quite as successful in this objective. The balance sheets of the banks have been allowed to explode, corporate and personal debt levels encouraged to rise forcing asset values to unsustainable levels and regulation seems to have been non-existent.

We, here in Yorkshire, are very proud that one of our entrepreneurs brought the game Monopoly to the UK from the US in the days of the last real depression in the 1930's. Those of you, who have played the game, will recall that the four corner plots are, 'free parking' for which you can read 'free rein', 'Pass go and collect £200', (no further explanation needed!), 'get out of jail free' and finally 'Go to jail'!!

It seems to us here in Yorkshire and other real economy regions that those running our banks and economy have been playing this game for real and landing almost continuously on all these plots, except one!

Inevitably, it all got out of control. To quote our principal guest in a speech he made in February this year "In part, the problem stems from lack of imagination...on the effects of the accumulation of debt that was built up".

Now having said all this, the toast this evening is to The Bank of England represented by its Deputy Governor, Charles Bean, and to the whole banking industry. In making this toast I have a number of messages to all of those bankers, politicians and economists trying to get us out of this mess.

Firstly, to the banks generally, in or out of Government ownership, my message is simple. Do what you were set up to do – take deposits and pay interest on them and then lend those deposits to those who need them, at a reasonable cost.

By all means improve your capital ratios but do not waste all those billions of £'s provided by the taxpayer on other forms of trading.

Listen to the recent advice from the Governor of the Bank and, if necessary, take a few risks in the corporate sector at least comparable to some of the risks you are taking everyday in the currency, commodity and futures markets. Reduce the speculation and stop paying people to take risks with other people's money.

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Only by doing this will London regain its rightful reputation as a secure and honest place to do business and in the current economic climate that will mean a lot to both UK and overseas investors.

I am aware that there are political differences on the splitting of traditional banking from capital markets. The latest report from the former Chairman of Citicorp was hardly going to recommend any change from the status quo. However, maintaining today's integrated banking structure comes with huge risks attached and the need for proper regulation become paramount.

If it wasn't already bad enough out there in the corporate sector, there is also some real evidence emerging that the banks are now starting to hold businesses to ransom by calling in overdrafts on technicalities, charging exorbitant fees to reinstate them and generally destroying any form of relationship banking that might have existed before this crisis. These bullying tactics, Deputy Governor, needs the Bank's and Regulators attention as a matter of urgency.

Secondly, companies in this region need assistance now and we hope that the Bank of England, in trying to boost the economy, would encourage the banks and Government to do this. Short term cash help is, I suspect, more important to most businesses, than reducing interest rates.

It is quite clear from anyone that you talk to in the region that the miniscule £1.3 billion EFG Scheme has yet to make a difference here in Yorkshire. The much publicised easing of credit has yet to flow through and the measures taken by the Bank and others to restore confidence in the banking system through the purchase of toxic assets, corporate debt and guarantees just does not seem to be having any effect on the real economy, even if it is having a positive effect on the share prices of the banks!

Jobs are being lost at an ever increasing rate, according to the latest surveys, and still games are being played with major manufacturing companies, such as Jaguar, who are asking for petty cash compared to what has already been injected into the financial system.

If the money continues to stick in the banking system, as even the Governor suggested last week, then the Government must be persuaded to invest it direct or at least give it to our RDA, Yorkshire Forward, to local Councils and other agencies, who do want to support our businesses and local economies when the banks won't. The next few months are critical and this is no time for indecisiveness.

In September last year, ironically a week before the collapse of Lehman Brothers, the Government issued its Manufacturing Strategy Review. The foreword starts with a quote from

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the Prime Minister, which reads "for this Government, manufacturing has been and will always be, critical to the success of the British economy".

So, my third message is directed to the Bank of England, in its advisory role to the Government, the banks and the City.

If I had made this speech fifteen or even twenty years ago, I would have been derided, as a wishful thinker.

London was fast becoming the world capital for financial markets. Financial services had been identified as the key area of growth for the country. So to ask for support for manufacturing industries would, no doubt, have fallen on deaf ears.

I think everyone now accepts that financial services in this country can never be allowed to be the same again. Whilst it should play an important part in our mixed economy, if only a fraction of the capital tied up in some of the 'toxic assets' and trading activities could be redirected to supporting some of the key principles of this manufacturing strategy such as innovation, technology and our skills base, then the UK can be assured of retaining its rightful place as one of the world's leaders in manufacturing excellence.

Deputy Governor, you yourself expressed your concerns last week that the lack of credit had already cut the working capital of companies, restricting their ability to trade and could permanently reduce output, investment and research and destroy skills. All the things we must have to create the real wealth the economy needs.

If the lack of credit and hardening attitude of the banks continues, this will have a dramatic effect on the industrial foundation of this country. The 50% increase in productivity over the last 12 years, half of all UK export income, the £150 billion it contributes to the economy every year will stand for naught if manufacturing industries are not supported through this crisis.

Regionally, the last 15-20 years has proved, without a doubt, that much of our industry is more than competitive in world markets, whatever the currency situation. The name Sheffield still counts for a lot in the world of steel and manufacturing, not only for quality and reliability but for innovation and enterprise.

Recently, we have all been delighted to see that the Bank, in the guise of the Governor and others on the MPC, has started to show some real independence of thought and deed. You even made a £1 billion profit for the taxpayer last year!

It is now up to the Bank to assume its responsibility and guide the politicians to take sensible steps to get the economy, especially credit, moving again. There will be an election within the

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next twelve months, so it is essential that the Bank and other regulators use their influence to ensure there is no political grandstanding over the economy during this crucial period.

We do hope, Deputy Governor, that the Bank will act as the Government's banker, play hardball with borrowing, the printing of money and budget deficits. It is also important that the Bank does 'get it together' with the Treasury as two quite different forecasts create uncertainty, volatile markets and a mismatch of monetary and fiscal policy, which more than ever need to be as one.

Finally, it is essential that the Bank gets the statutory powers that it is seeking so as to ensure that the processes needed to regulate the banks and the financial system are put into effect as soon as possible.

All this is going to take a lot of skill and effort on the part of the Bank. Deputy Governor, we look forward to hearing your response to this toast and we wish the Bank well in its endeavours. It is thus my pleasure to propose the toast ".

"The Bank of England".