



# HM TREASURY

1 Horse Guards Road SW1A 2HQ

[www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk)

---

**EMBARGOED UNTIL 21:00 ON WEDNESDAY 18 JUNE 2008**

**Speech by The Chancellor of the Exchequer,  
The Rt Hon Alistair Darling MP,  
at Mansion House , 18 June 2008**

[Check against delivery]

1. My Lord Mayor, Mr Governor, my Lords, Ministers, Aldermen, Mr Recorder, Sheriffs, ladies and gentlemen. It is a privilege to be asked to address you this evening.
2. It must also be something of a change for you as this event has been addressed by the same man for eleven successive years.
3. In preparation for tonight, I have read my predecessor's speeches closely.
4. I have noticed that over the years, they tended to creep up in length. And in scope.
5. To allow you to enjoy your coffee earlier, the Governor and myself – another sign of the close co-operation between us – have agreed to copy the early Brown period rather than the later.
6. I do, however, want to talk about the global challenges our country faces and our determination to take action at home and internationally to ensure we meet them successfully.
7. This, of course, is exactly what the UK and the City of London financial sector has demonstrated over recent years.
8. Indeed, the talents, drive and commitment of the firms you represent are crucial to the prosperity of our country.
9. Our financial services sector supports over one million jobs and accounts for over ten per cent of GDP.
10. Over thirty per cent of the world's foreign exchange trading and over 40 per cent of foreign listed equity trading takes place here.
11. We are the world leader, too, in international banking.
12. This success is underpinned by talent and achievement in many related professions and sectors, such as law and accounting.
13. Together you have made London the world's main financial centre. And I agree with you, my Lord Mayor, that working in partnership, we must do everything to keep it that way.
14. That is why I meet regularly with you, a group of City firms, the FSA and the Bank of England.

15. Following our most recent meeting, we agreed to set up a forum to consider the challenges to the City's competitiveness.
16. The group is also bringing together senior industry players to look at a range of issues, including the efficiency of our capital-raising around short selling.
17. All our efforts to strengthen London's position must be based on our long-standing tradition of openness and welcoming investment from overseas including sovereign wealth funds.
18. We need also to be able to attract the brightest and best from around the world to the City and to our country.
19. The new Australian-style points system will be introduced this autumn to help ensure this happens.
20. We understand companies, like people, can choose where to do business. We want them to choose us.
21. Our approach to regulation is one of the reasons companies choose to come to the UK.
22. And a competitive tax system is also, of course, critical to our continued success.
23. Through the new multinational business tax forum I set up, we are talking to you about what more needs to be done to keep the UK and the City of London in the lead.
24. But, of course, the biggest single factor in helping you deliver your ambitions for the future are the decisions the Government takes to ensure the strength and stability of our economy.
25. It is an economy having to deal, as elsewhere in the world, with turbulence in the financial markets and the soaring cost of energy, food and commodities.
26. As an open economy, the UK, of course, has been well placed to take advantage of the opportunities that globalisation has brought.
27. For businesses, it has meant new markets. For consumers, it has meant, for example, electrical goods and clothing at historically low prices.
28. UK productivity, living standards and growth have risen as a result over the last decade, closing the gap with other major industrial countries and reversing decades of relative decline.
29. But this new interdependent world brings risks as well.

30. The twin global shocks of rising commodity prices and the credit crunch have led to growth forecasts for advanced economies being halved in the last year.
31. Earlier this month, we again saw the OECD revising down their growth forecasts for economies around the world for both this year and next.
32. No country can escape these consequences.
33. As I made clear in the Budget, I expect the UK economy to continue growing, but for growth to slow this year. This is already clear from recent official figures and in business surveys.
34. Lord Mayor, I have seen reports suggesting yesterday's inflation figures show we are returning to the days of the 70's.
35. They are wrong, both in the nature of the problems we face and also in the scale.
36. Today's inflation must be tackled. We cannot be complacent.
37. But in comparison to the 1970s when it reached over 26 per cent, it remains low. Even in 1991, it was still at 8 per cent.
38. And it was home grown inflation which dogged our economy in the 70s and successive decades.
39. In 1992 for example, when the UK was ejected from the ERM the price of imported raw materials was falling. But despite that, home grown pressures pushed CPI inflation to 4.3% that year while growth was just 0.2%.
40. Ten years ago we made the Bank of England independent.
41. The MPC has been a cornerstone of the successful economic policy frameworks that have delivered sustained growth and a level of inflation that has been, on average, lower than in the euro area and United States.
42. But while the inflationary pressures we faced in the past were primarily domestic, today they are global.
43. The Governor, in writing to me yesterday, explained that the dramatic increases in the prices of food, fuel, gas and electricity alone account for 1.1 percentage points of the 1.2 percentage points increase in inflation.
44. These sharp price increases reflect developments in the global balance of demand and supply for food and energy.
45. In the last year world agricultural prices have increased by 40 per cent.

46. Global oil prices have risen by more than 80 per cent to average \$123 a barrel.
47. To put this into perspective a decade ago a barrel of oil cost less than \$10; two weeks ago it jumped by more than that in a single day.
48. Lord Mayor, these are external shocks which are affecting every economy in the world.
49. In May, inflation rose to 3.7 per cent in the euro area and 4.2 per cent in the US – both above inflation here in the UK.
50. In fact so far this decade, inflation in the UK has been on average the lowest in the G7 except for Japan, which has suffered a long period of deflation.
51. I believe that we are well placed to continue this record.
52. Because of the UK's flexible labour markets employment is at record levels, unemployment is low and half the level it was in the early nineties.
53. And pay growth has remained moderate. Average earnings growth, excluding bonuses, in the year to April was 3.9 per cent, a little below its average since May 1997.
54. But continued restraint on pay is required from both the public and private sector.
55. We must recognise the need to reward efforts of people who work hard.
56. But to return now to inflationary pay settlements would undermine rather than raise people's living standards with a damaging circle of wage increases eroded by steadily rising prices.
57. We must never return to those days.
58. That is why the Government has agreed a number of multi-year pay deals that now cover 1.5 million public sector employees.
59. Global inflationary pressures mean I am likely to receive more letters from the Governor in the coming months.
60. The Government will continue to support the MPC in its decisions to maintain price stability and support the economy.
61. Lord Mayor, times are tough. It will take time for these global difficulties to work through.
62. But our economy will continue to grow.

63. Independent forecasters expect UK inflation to fall back next year.
64. Employment is at a record high.
65. Many order books are full.
66. British business is competing and winning all over the world.
67. Our economy is flexible and resilient.
68. In fact, both the OECD and the IMF expect us to be among the very best performers in all major developed economies.
69. I agree.
70. But, Lord Mayor, the global nature of inflation today highlights how the economic challenges we now face are different from 1997.
71. The UK then had a record of economic instability and home grown pressures driving inflation.
72. We had high levels of public debt and unemployment and a legacy of chronic underinvestment in our key infrastructure and public services.
73. In the past, to reduce borrowing, public investment was cut to historically low levels.
74. We have cut debt from 43 per cent of GDP in 1997 to 37 per cent last year.
75. It means that, with the world economy slowing, we can allow our borrowing to rise this year to support families and businesses, while maintaining sound public finances.
76. We have taken the decisions needed to provide stability and a platform where companies can invest with certainty and individuals can make the most of their talents.
77. Our macroeconomic framework is facing its toughest test in a decade. But we will come through it with renewed confidence.
78. And from this essential platform of stability, we also need now to show the same determination to meet the new global challenges facing our country.
79. We are determined to press for a new global approach to remove the barriers which are preventing an increase in the supply of oil and put in place long-term measures to reduce demand.

80. The Prime Minister will travel to Saudi Arabia this weekend for a summit between the main oil suppliers and oil consumers to see how we can work together to better balance the supply and demand for oil.
81. Both energy and food were discussed at last weekend's G8 Finance Ministers' meeting.
82. They will be high on the agenda at next month's G8 summit when the UK will propose a global initiative to increase agricultural production.
83. And we must look again at the Common Agricultural Policy. It is unacceptable that at a time of significant food price inflation, the European Union continues to apply very high tariffs to many agricultural imports.
84. We must also do all we can to secure a global trade deal at Doha. We believe it is within our grasp and are pressing to achieve it.
85. And we must be on our guard against those who may use the present difficulties to push for new trade barriers and higher tariffs.
86. While other countries might make increasingly protectionist overtures, our message must be that we are open for business.
87. Lord Mayor, globalisation is not a choice. The clock can't be turned back.
88. Indeed, as the City of London has demonstrated, it brings huge opportunities to those ready to seize them.
89. And we can see similar success stories across our economy. In the biotech sector, pharmaceuticals, and aviation – all knowledge-based industries.
90. And we are well placed to grasp the opportunities opening up as we move towards a low-carbon future – vital if we are to tackle the threat of climate change.
91. Lord Mayor, just as inflation now is a global challenge, so too is the need to maintain financial stability.
92. Over the past ten years financial markets have been transformed. They are increasingly fast-moving and international in scope.
93. This has brought real benefits but also increased risks.
94. In the past, if a bank failed it might affect a city or a country.
95. But as we have seen in America earlier this year, it can now spread to the entire world within days. And this new reality affects us all.

96. The challenge for governments now is to balance the need for innovation in markets while minimising systemic risk and protecting consumers.
97. This requires both a global and domestic response.
98. Internationally, the IMF and Financial Stability Forum need to play an increasing role in providing an early warning of the threats to the financial systems.
99. We have secured support for the expanded use of international colleges of supervisors recognising that financial institutions increasingly operate in many different countries.
100. Here at home we will continue to support the Bank of England's special liquidity scheme.
101. We expected initial take up to be around £50 billion, although we have made it clear that it is not capped.
102. The scheme has helped stabilise the financial markets and bring greater confidence, which will, over time, support lending in the economy.
103. And I want to thank the Governor for his tremendous work and invaluable support over the past twelve months.
104. Lord Mayor, among the areas that have been transformed in recent years are mortgages.
105. A decade ago, almost all mortgages in the UK were funded by depositors. By last summer, a third of new mortgages were funded by the global money markets.
106. That is why I have asked Sir James Crosby to consider both the underlying problems in the wholesale mortgage markets and the steps the industry and government can take to restore confidence.
107. As we have seen, problems which began in the US housing market last summer soon meant financial institutions across the world needed support from their authorities.
108. Northern Rock tested our own system of financial regulation.
109. There were no easy answers to its problems. But we took the necessary steps to protect savers and wider financial stability.
110. We ensured that Northern Rock's problems did not spread to the rest of the banking system. No savers lost money. And we will continue to do everything we can to protect financial stability.

111. I believe that our proportionate, principles based approach to regulation – and the single regulator model that has been widely copied since we put it in place a decade ago - remains the right one for our future.
112. As I have said before, the answer is not more regulation, but regulation that is more effective.
113. It is important that, for example, the FSA has the necessary powers to tackle market abuse and ensure investor confidence is protected. The Government will be bringing forward legislation to provide the FSA with additional powers.
114. And we are already working with prosecutors to help the FSA improve its prosecution rate.
115. I want to thank Sir Callum McCarthy for his leadership of the FSA over the last five years and welcome Lord Adair Turner, who takes over in September.
116. Lord Mayor, no system of regulation, of course, can or should prevent the failure of each and every institution.
117. But we must do everything possible to prevent problems which could pose a wider threat to stability.
118. At the centre of our banking reform proposals are new powers for both the FSA and the Bank and improved procedures for co-ordination between them.
119. These will reduce the likelihood of failure, lessen the impact if it happens and ensure that savers are properly protected.
120. The FSA will remain the sole banking supervisor.
121. But the Bank of England also has a critical role in protecting financial stability.
122. The Bank of England Act 1998 gave the Bank a statutory objective on monetary policy.
123. As I have said, the Government now intends to provide as well a formal legal responsibility for financial stability, alongside its existing role in monetary policy.
124. In doing so, we will build on the very positive experience of the Bank's Monetary Policy Committee.
125. A slimmed down Court will have oversight and a new Financial Stability Committee, including Non-Executive members drawn from Court, will guide the Bank's operations in this field.

126. It will bring valuable, external expertise with City experience to bear on the Bank's decision making.
127. I shall set out full details tomorrow in a letter to the Chairman of the Treasury Select Committee and in a consultation document shortly.
128. The challenge for us is to ensure that the authorities can act quickly and decisively where necessary to support financial institutions. These proposals will give the authorities the full range of powers they need.
129. They do so by entrenching the model established a decade ago - the FSA responsible for individual institutions, the Bank of England for the stability of the financial system as a whole - but by providing each institution with new powers, and improving co-ordination between them.
130. I would like to take this opportunity to pay tribute to Rachel Lomax, who is retiring this year, for her distinguished service, not just as the Deputy Governor, but in the civil service too.
131. I expect to announce her successor tomorrow.
132. I am also taking the opportunity to strengthen the procedure for future appointments.
133. In future, we will also advertise the posts of the Governor, the Deputy Governors and also for external members of the MPC, consistent with the principles of open competition. to inject more openness and transparency to the process.
134. Taken together, these measures represent a major reform equipping us to deal with the challenges we face, and in particular giving the Bank of England and the FSA the mandate, the responsibility and the accountability to discharge the vital duty of ensuring financial stability.
135. A clear statutory objective to provide financial stability, a smaller and reformed Court, a new Financial Stability Committee and more transparency in appointments.
136. Lord Mayor, as we take the decisions needed to come through present difficulties, we are keeping our eye firmly on the long-term future of the country.
137. We are taking the hard decisions, many controversial, but I believe essential for our long-term interests.

138. We are, for example, addressing problems with our energy and transport infrastructure.
139. We have brought forward plans to streamline the planning process. To meet the challenges of the 21<sup>st</sup> century, we need a planning system which is both fairer and faster.
140. We have given our backing to a new generation of nuclear power stations to help meet our energy security and tackle climate change.
141. We strongly support new airport capacity for London and we are going ahead with Crossrail.
142. And we will continue to invest in skills, infrastructure, science and innovation, which are essential for our future success.
143. Over the last decade, we have taken the decisions needed to provide a strong and stable economy. We are now taking the right decisions to ensure the continuing prosperity of our country.
144. Lord Mayor, the forces of globalisation are becoming ever stronger.
145. They bring both opportunities and challenges.
146. We must never be complacent. But we should also be confident.

**ENDS**