

**Global Ethic Lecture held by Group Chairman of HSBC Holdings plc
Stephen K. Green at the University of Tübingen on December 16, 2010
at the invitation of the Global Ethic Foundation**

“Global Economy – Global Ethic”

Rector Engler, Professor Küng, Ladies and Gentlemen – thank you. I am delighted to be here this evening.

When a leading US investment banker was recently reported as saying that he was *‘doing God’s work’*, he was met with a chorus incredulity and derision. And understandably so. As the British historian Niall Ferguson puts it: *‘banking has never looked less like a divine calling’*.

However, I firmly believe that it is possible to take an ethical approach to banking and, in fact, that it is absolutely necessary to do so. Indeed, I believe there is a powerful case to argue that businesses which are enlightened, which are led by their values, and which look to long-term prosperity, rather than short-term gain, can be a significant force for good in society.

The Manifesto for a Global Economic Ethic, which Professor Küng presented at the United Nations in October last year, is very clear about this. Its preamble reads: *‘For the globalisation of economic activity to lead to universal and sustainable prosperity, all those who either take part in or are affected by economic activities are dependent on values-based commercial exchange and cooperation.’*

So we have to reflect on the way we do business. To consider: what does a values-based approach mean for our capitalist system, for the great challenges of our time, for each of us as individuals? And to ask: can we

define, in a meaningful way, the concept of 'global ethics'? These are the questions that I want to address this evening. But first I think it's important that we consider the broader context in which we are operating.

A changing world

We are still, of course, dealing with the aftermath of the worst financial crisis since the 1930s. While Germany is performing well – Rainer Bruederle expects the economy to return to pre-crisis levels next year – much of Europe is still struggling. The aftershocks are still hitting the Eurozone, with the situation in Ireland being just the latest example.

But the crisis is one aspect – albeit a significant aspect – of a broader picture. A range of seismic global trends are making this a time of huge and rapid change.

First, the global centre of economic gravity is moving decisively from West to East. Asia's share of global GDP is only slightly above 30 per cent, yet it will account for no less than 60 per cent of global growth this year. In recent weeks, China has taken its place as the world's second largest economy – and it looks on track to overtake the US and become the largest by the end of this decade.

Over the next five years China's middle class is expected to almost double, from 172 million to 314 million people – more than the entire US population. The economists at my former employer, HSBC, are certain that emerging markets, with China foremost among them, will continue to lead global growth for the foreseeable future.

It is becoming clear that we are moving away from the uni-polar system and returning to what is historically a more normal situation – the multi-polar balance of power. The clearest sign of this is the growing importance of the

G20. Indeed I think that the rise of this new forum as the central body for debating the world's economic affairs is hugely significant. Historians writing in say 50 or 100 years' time, will point to it as the moment when the international community faced up to reality – and gave up the notion that a group of rich nations could get together and sort out the world's problems.

Second, globalisation is therefore entering a new phase – as prosperity is spreading more widely around the globe, and technology eliminates the divides caused by distance, people are becoming increasingly interconnected.

Just look at London, the city in which I live and work. Connected, vibrant and welcoming to the world, it thrives on its cultural openness. More than 300 languages are spoken in the city today. It is home to 250 foreign banks, more than any other financial centre. It is the leading western centre of Islamic finance. And it provides offices for 75 per cent of the Fortune 500.

Global and regional hubs like these are transforming the shape of the world economy – and, as they attract more and more people, they are changing the way we live our lives.

And this leads me to the third global trend – urbanisation.

Two years ago, we reached an historic moment when, for the first time, more than half the world's people were city dwellers. And of course, the story of urbanisation is no longer really about Western cities. Today, more than a third of the world's population live in emerging market cities. This is where virtually all future population growth will take place – and a large proportion of future economic growth.

Just reflect for a moment that, in addition to having more than 40 cities with over a million inhabitants, China also has a further 700 rapidly growing cities each of which are home to more half a million people. These cities – with

names that many will scarcely recognise today – will be the engine-rooms of the global economy tomorrow.

These changes have been developing and accelerating for many years now, but I think it's fair to say that the common response in the West has been to carry on regardless. We have been walking in the dark. However, the effect of the financial crisis has been to turn on the lights. The imbalances and unsustainable practices that developed over recent years have been exposed. It is incumbent on us all to reflect on the world as we now find it. Not just to ask how we allowed ourselves to get into this position, but more fundamentally, to re-assess some of our most basic assumptions, to challenge the key tenets of our economic life. And to consider what we have learned about the nature of capitalism itself.

The changing nature of capitalism

It is perhaps no coincidence that as the Cold War ended, capitalism started to overheat. When two opposing forces are pushing against each other for so long, it is hardly surprising that the removal of one should lead the other to spin out of control.

Capitalism's success gave rise to hubris, hubris to complacency, and complacency to an almost fundamentalist faith in the market. The goal of social and economic development gave way to the lure of short-term profits.

Something profoundly significant had occurred – a shift in the philosophy of business and, in some ways, in the philosophy of society. A shift which led, like an arrow, to the problems we are living through today.

Yet this crisis, though massive in its scope and scale, has not delivered a fatal blow to the capitalist system. The system – flawed as it is – survives. So why is this the case?

Well, firstly it is because the response to the crisis has so far been effective. The nations of the world have acted rapidly, decisively and, crucially, they have acted together.

When the G20 met in London in April 2009 it issued a statement of absolute clarity, declaring: *'We believe that the only sure foundation for sustainable globalisation and rising prosperity for all is an open world economy based on market principles, effective regulation, and strong global institutions.'*

A remarkable statement. Not least as it bore the signatures of the President of the United States, the Russian Federation and the Peoples Republic of China, along with those of 17 other leaders.

This illustrates the second, and more fundamental, reason that this crisis will not prove fatal for capitalism – there is simply no acceptable alternative.

Sir Winston Churchill famously said that: *'democracy is the worst form of government except all those other forms that have been tried from time to time'*. I believe that we must now invoke that Churchillian defence on behalf of capitalism. It is, you might say, the worst system of economic and social development except for all those other ones that have been tried from time to time. And, of course, one of the stark lessons of the 20th century was just how flawed the alternatives are.

Towards a better capitalism

But this is not an argument for complacency, or for the status quo. It is clear that capitalism has been found wanting and that it will have to adapt. If capitalism is the only effective system we have, then we've certainly got to do a better job of applying it, and run it in a more ethical way for a changing world.

Above all, capitalism has to serve everyone – not just the rich, and not just the West. It is clear that public trust has broken down. People rightly feel that business has lost touch with reality – that the real job of the ‘invisible hand’ was to pick their pockets. Today, nearly 70 per cent of people around the world expect businesses and financial companies to return to business as usual once the recession and its aftermath ends. It is not an encouraging picture. But it is a logical reaction to a system which lost its principles and lost its purpose.

There are signs that things are changing, however. The Chicago-school argument that the sole job of business is to create profit for shareholders, has proved not just morally insufficient but also commercially insufficient. Milton Friedman – who championed this approach – said that: *‘one of the great mistakes is to judge policies and programs by their intentions rather than their results’*. We should take him at his word, because the crisis has demonstrated that, in the end, market fundamentalism cannot serve the community, the business, or the shareholder, because it does not sustain value.

Hans Küng has said that a couple of years ago, when he spoke about ethical aspects of economics, he often felt *‘like a voice calling in the desert’*. But, I hope, no more. To apply another metaphor, from another great man – it was Robert F. Kennedy who said:

‘Each time a man stands up for an ideal... he sends forth a tiny ripple of hope, and crossing each other from a million different centres of energy and daring those ripples build a current which can sweep down the mightiest walls of oppression and resistance.’

And there is certainly now a growing realisation that capitalism must change – that profit and responsibility are not in conflict, they are interdependent. Business has a wider role and a wider responsibility. And this means

developing a properly regulated and responsible system – an ethical capitalism.

So we have to strike a balance. Our objective must be to tame the excesses in the system, while preserving the dynamism of the market forces which spur economic growth and development. An ethical system would demonstrate that regulation and economic growth are not in competition – and that improved rules and regulations are meaningless without a renewed sense of values.

But, more specifically, an ethical system is not silent on the great problems of our time – rather it must work to confront them. Problems such as poverty and climate change – problems which, left unchecked, would not just imperil the future of the global economy but also threaten the progress of mankind.

Poverty and development

Foremost among these is surely the Gordian knot of poverty and development. And, I believe, the best weapon we have at our disposal to deal with this, is capitalism.

Adam Smith argued that: *'no society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable.'* I believe that this sentiment is better applied not just to one society, or one nation but, in fact, to the entire human race.

In September, the United Nation Millennium Development Goals summit convened in New York, marking 10 years since world leaders pledged action to transform the lives of the world's poor by 2015, now just 5 years away.

A great deal of progress has been made. We have achieved a significant drop in the number of people living in extreme poverty around the world from an

estimated 1.8 billion in 1990 to 1.4 billion in 2005. But we are still clearly a long way off the main goal of reducing global poverty by half.

And, in this changing world, we need to reassess the prospects for future progress. The World Bank has estimated that the global downturn will probably leave an additional 60 million people or so in extreme poverty by the end of this year, above and beyond what we would otherwise expect.

Certainly, the G20 has made it absolutely clear that dealing with the issues of inequality and poverty is essential to long-term stability – and that it sees the openness and market principles as being at the heart of the global economy.

Indeed, we know that the most rapid economic progress comes through free market reforms. There was a famous study in the 1990s by Jeffrey Sachs and Andrew Warner which showed that developing countries with open economies doubled in size, according to their calculations, about every 16 years. In closed economies on the other hand, they calculated that progress would be better measured in centuries.

I believe that same logic still applies. In the case of China, radical reforms opened up its economy, and led to phenomenal rates of growth that have been sustained over quite long periods of time now. Between 1981 and 2005, China lifted some 600 million people out of measurable poverty. Surely no other force has ever proved so effective, on such a scale, in transforming people's lives for the better.

The challenge is to replicate this success elsewhere. Africa – for so long cruelly dubbed 'the hopeless continent' – is now giving cause for hope. It is more stable than any time in living memory. The Boston Consulting Group has argued that the African economy is much more vibrant and entrepreneurial than most people understand. They identified 40 so-called 'African Challengers' – fast growing, globalising companies, from the financial services

sector to mining, from telecoms to airlines, which they think will lead Africa's economic awakening over the next 10-20 years.

Africa is now becoming part of the global economic mainstream – with investment pouring in, not just from the West, but from China, India and Brazil. And it is clear that financial services will have an important role to play. Indeed, there is no known example in history of a nation achieving sustained growth and development without a strong, thriving financial services sector at the heart of its economy.

Towards low carbon growth

A further area in which I believe an ethical capitalism can and must make a significant contribution is in creating an environmentally sustainable model of growth.

From Malthus to peak oil, fears of planetary exhaustion have a long history. But climate change is different. The evidence is clear and the implications are vast – from flooding to food shortages, from mass immigration to war.

Now I realise that this will sound strange to some ears – especially to those who believe that financial crises and climate change are two symptoms of the same man-made capitalist malaise. However, if the last three years have reminded us just how our markets can be engines of destructive excess, I believe just as firmly in their potential to harness human and financial capital to help solve some of our greatest problems too. We are now marking the first anniversary of the Copenhagen summit, and yet there are few signs of progress. If this experience tells us anything, it is that governments cannot solve this problem alone – financial markets and businesses will have to help. I believe that they have a role to play in both parts of the solution – mitigation and adaptation.

In business processes, the environment is still regarded too cheaply. We still have what you might call, in economic textbook terms, a problem of the commons, where natural resources and, in particular, carbon emissions are not properly priced. We urgently need to apply the discipline of the market to carbon emissions to ensure that their true cost is reflected.

The fact that this has not yet been achieved has been dubbed: '*the greatest market failure that the world has ever seen*'. In my view it is now the greatest opportunity for markets to prove their value.

Markets will also be vital in funding the technological development – and the clean energy – that we need to fight climate change. They will help finance a wave of start-ups, technological innovations and big ticket infrastructure projects, all of which need financial support. It's already the case that the climate business sector – that is to say the products and services linked to addressing climate change – generates annual revenues of some \$500 billion, which happens to be larger than the global aerospace industry.

This growth will clearly continue quite rapidly over the next decade and some estimates suggest that it will get as high as two trillion dollars in as little as 10 years time. Whether or not those estimates are right, it is clear this involves a large amount of capital which has to be raised and efficiently allocated – a task which there is no chance of the public sector or civil society achieving without extensive primary reliance on the mechanics of the global market.

An ethical capitalism can rise to this challenge, and indeed it is essential for the world's well-being that it does so. And there are some encouraging signs of what you might call a 'low-carbon consciousness' beginning to permeate investment policy in the capital markets with all the potential that this can make over time for cutting carbon emissions.

Global ethics and the individual

It is clear from all of this that a change of consciousness more broadly is essential. To tackle these global issues, avoid future crises and ensure that prosperity in the future is both shared and sustainable, we need a re-imagined capitalist system. And the process of creating this system will have to be driven by individuals.

In “Das Kapital”, Karl Marx cited a report describing the privations suffered by factory workers in the 1860s:

‘Children of nine or ten years are dragged from their squalid beds at two, three or four o’clock in the morning and compelled to work for a bare subsistence until ten, eleven or twelve at night... their limbs wearing away, their frames dwindling, their faces whitening and their humanity absolutely sinking into a stone-like torpor...’

Thankfully, the system works quite differently today. Power is more dispersed – individuals are no longer mere *‘slaves to an ironhanded, grinding despotism’* – rather they are in a position to have tremendous influence, for good or ill.

It is clear, for example, that the principal deficiencies in the run up to the crisis related to patterns of behaviour and culture, not failures of organisational structure. All too often, individuals had lost sight of the need for integrity, and to do business with trust and honesty. For some financial institutions in the run up to the crisis, the culture had become one of *‘if the market will bear it, if there is a contract, then I don’t need to ask any further questions.’*

However many new regulations or compliance and accountancy rules we have, they will never be sufficient if there is no change in culture – if there is no values system underpinning the decisions which individuals make.

It was always apparent to me that the majority of my former colleagues wanted to make a contribution to society through their work and through the business. Leaders have the responsibility to facilitate that desire. It should be a central task of any company to help every employee understand how they can make a contribution, and to provide them with the support and opportunities they need to make a difference. In this way the organisation is no longer simply a collection of employees, it becomes a group of engaged citizens.

HSBC, for example, has long sought to nurture values at the heart of the business, and to play a positive role in the wider world. One of the outstanding leaders of HSBC's early days – Charles Addis – wrote in a letter at the start of the last century that *'the ultimate basis for all economic conceptions is ethical'*. He was right. So much has changed since then, but that central principle has not.

Harvard University has now introduced an 'ethics oath' which its MBA students are asked to sign. One line of the oath reads: *'I will seek a course that enhances the value my enterprise can create for society over the long term.'*

This has attracted a range of reactions, including some cynicism. But actually, I believe it is a fine sentiment. These leaders of the future are being asked to consider the wider ramifications of their actions. They are being asked to commit to ensuring that responsibility, sustainability and accountability run through their every decision.

The point is that, whether in business or in education, we should all take the time to do this. To consider what we worship, what we admire, what we hold dear, what we hold to be right. We should ask ourselves: what is progress? Is it material or moral? Do we find it in the accumulation of wealth or in the

quality of our lives? Is it measured by the strength of one nation or the prosperity of all nations?

None of the realms we move in – our family life, our social life, our work life, our academic life – are neutral ground. And all of these questions have to be answered if we are to survive in a modern capitalist environment with integrity and purpose.

Conclusion

It is surely human instinct to resist change and uncertainty. So how can we begin to cope with all of this?

As a visitor to Tübingen, I would like to conclude by mentioning the work of another, rather more illustrious visitor to this town – Johann Wolfgang von Goethe – who came here in 1797.

One of the great dangers of seeking certainties in the modern world is the temptation to take the Faustian option – the bargain that grants immediate and undiluted satisfaction in exchange for acceptance of the consequences, whatever they are. Yet, we know that in the end the bargain proves illusory – it does not grant fulfillment, nor banish ambiguity.

Goethe's Faust is the archetype of the individual who asserts himself by doing and having. In his world, to be more is the alternative to being nothing. And to be more is to do more and to have more. Yet – once again – we know that this is not the path to fulfilment.

It is only at the end of Faust's life that he finally finds satisfaction, and then it is not from any superhuman act or impossible luxury. Rather it is from a simple project to help his fellow man – to drain marshland and make it fit for human prosperity. As death is about to catch up with him he cries out:

*'To stand on free ground with people who are free!
In that moment I could say
"But stay a while – O, how beautiful you are!
The trace of my earthly days
Will never be lost though eons of time". '*

This, then, is the path we should follow. Completeness in our lives and our ability to work towards a better future will rest on our ability to accept and embrace the ambiguities of the modern world – and find our own place within them. And that, in fact, this is where we will find a sense of shared values – of global ethics.

We do not share all values universally. We each view the world through a prism, made up of our values, our experiences and our faith. It is through these individual influences that we interpret the world and our place within it.

Of course, we all have a different prism, and a different perspective. But, at root, despite our differences, our feelings are human and therefore they are shared. And, in particular, we share an understanding of the common values and principles which we need to do business in the global marketplace.

This simple truth should guide our actions – the knowledge that, though it is hard to see, the concept of global ethics is nothing more or less than the decisions we make as individuals. The challenge is to perceive the bigger picture – to understand how our actions interconnect with those of our fellow man – creating something bigger than ourselves, and ultimately creating the global economy and the *'universal and sustainable prosperity'* that is described in the Manifesto, and that we all want to see.

Thank you for listening.