



BANK OF ENGLAND

What do you think about when you think about a market?

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At the heart of the City of London, behind a towering colonnaded facade, sits the Bank of England. The heart metaphor is an apt one. For over three hundred years, the Bank has pumped oxygen to the City of London's vital organs – its financial firms and financial markets. Today, with its balance sheet larger than at any time in its history, the Bank's heart has never galloped faster.

Inside the Bank, just outside its Court room where traditionally the Bank's Board of Directors (the "Court") would meet, is a painting by Bill Jacklin. Unlike much of the Bank's artwork, it is a modern piece dating from 1988. It depicts traders on London's International Financial Futures Exchange, just a stone's throw way from the front of the Bank in another towering colonnaded building, the Royal Exchange.

The image is a kaleidoscope of colour, movement and noise. The traders are dressed in garishly coloured jackets. They are seen frantically darting between counterparties, ducking and diving both physically and financially. Adding to the melee, traders shout out prices in a method known as Open Outcry. The description is appropriate. This is a cacophony of capitalism.

It is a portrait that captures the essence of markets at work. The image is at the same time both ancient and modern. Modern because of the sophisticated nature of the transactions. But also because, if you squint your eyes, the scene would not be out of place in market squares in towns the length and breadth of the country and in almost every country in the world.

The colours are now fruit and vegetables rather than jackets and ties. The bobbing and weaving is between pensioners and pushchairs rather than buyers and sellers. The Open Outcry is of the politically-incorrect market trader variety – "Come on ladies..." These, too, are markets at work, capitalism in cacophony.

Yet that scene is also as ancient as civilisation. For as long as people have bartered, they have attracted customers with the colours of their wares, the sounds of their voice, the movements of their hands and arms. For many, this is the very definition of a market economy.

For 300 years, the London Stock Exchange operated much like a town-square fruit market. Its origins in the 17th century were a coffee shop called Jonathans up a small street at the back of the Bank of England, called Exchange Alley. It was a small step from here, physically and financially, to the stock exchange trading floors of the 1980s, where brokers and jobbers jostled for business.

That trading floor has now largely been lost, a bygone era. The London International Futures Exchange still exists, but its trading floor is long gone. The Royal Exchange instead houses high-end retail outlets – Tiffany's, Rolex and Paul Smith. The traders are now tourists. The atmosphere is more cathedral than cacophony. The Royal Exchange no longer trades futures; it sells presents.

These scenes are replicated throughout the financial world. Coffee houses and trading floors have been replaced by machine and fibre-optic cable. The market square has been moved to the clouds. Traders, like the Martini-drinkers of the 1970s, can execute anytime, anyplace, anywhere. They are as likely to be wearing pyjamas as pinstripes.

Technology has made this virtual trading world possible. And where finance has led, other industries have followed. New or old, global or local, virtually everything these days can – and increasingly is – purchased or traded virtually. Anytime, anyplace, anywhere. Sometimes by people in pinstripes; more often by people in pyjamas.

Increasingly, that includes trading in money and loans. For more than 800 years, depositing and lending were the preserve of high street banks. Yet we may be about to enter an era where banking, too, becomes virtual. A world where payments are electronic and contactless, where lending is anonymous and digitised. The high street banks might, in time, feel the same pinch that is today felt by the high street shops.

And, yet, I wonder. Markets are more than convenient meeting points for exchange by colourless, inert, noiseless automata. Trade relies on repeat business, on reputation, on trust. Trust is earned by individuals – colourful, active, noisy individuals – not automata. It is built not on transactions but relationships. Even eBay, the world's largest online market place, is held together by one thing and one thing only – reputational glue.

Finance is not the exception but the exemplar of this rule. The world of finance is no more than a trade in promises. But promises need to be kept if trade is to be maintained. In other words, finance (like eBay) is a market whose glue is trust. That is why the word “credit” originates from the Latin “credo”, meaning I believe. And it is why many financial institutions globally retain to this day the word trust in their title.

The financial crisis illustrates, on a global scale, the consequences of a collapse in trust. Once financial trust is lost, people queue in the streets for cash, businesses take to the hills with their money, banks hunker down and hoard rather than lend. That is the very definition of a financial crisis, a crisis of confidence in promises, a ceasing-up of the credit arteries. Only the pumping heart of a central bank can then keep blood coursing through the veins of the economy. And that is why the Bank of England's heart continues to gallop.

Five years into this crisis, surveys reveal that banks remain at the very bottom of the trust league table. Trust is hard earned and easily lost. Regaining that trust is far from simple. Doing so may require more than a financial make-over, a bonus-tuck here, a liquidity-lift there. It may require us to rethink – or remember – what a market really is. Not an anonymised transaction, but a personalised relationship. Rebuilding banking means restoring its social glue.

Perhaps banking is beginning to heed this lesson. The fastest growing bank in the UK today is a Swedish bank called Handelsbanken. Its business model is simple: Handelsbanken is a high street bank with a

physical presence and a personal face. It lends to those within sight of the town church spire, within walking distance of the market square. It is a short journey from the Handelsbanken model of banking and the markets (for loans and for lemons) of the past.

For thousands of years markets have been meeting places with colour, movement and noise, like a Bill Jacklin painting. Until recently, financial markets were no different. When financial change came it whitewashed the colour, boxed in the movement, soundproofed against the noise. That sowed the seeds of the biggest financial crisis, perhaps not just in our lifetime but perhaps in any lifetime.

Avoiding that mistake in future calls for a rethink not just of how markets work, but why they exist. It calls for strengthening, not weakening, the social glue that holds them in place.