

The Power of Big Finance

How to reclaim our democracy from the banking lobby

June 2022

Executive Summary and Recommendations

Executive summary

Everyone deserves an equal voice in our democracy, but over decades, corporate lobbyists have exercised excessive influence over the system and a handful of politicians have let them, writing the rules in their favour. Taken together, ‘Big Finance’ — banks, investment firms, insurance companies and other large financial firms — form the most powerful interest group in the UK, and have leveraged that power to design a system that puts their commercial priorities above the public interest.

Decades of economic policymaking has prized the growth of the City of London above all other regions of the country and sectors of the economy. Whole industries and communities have been neglected and households drowned in debt to feed the financial sector’s growth. This prioritisation of finance is maintained by the sector’s ability to exert influence over the policymakers who make the rules. If we are to genuinely ‘level up’ the whole of the UK and address inequalities, we will need to ensure that the voice of the City of London does not overpower all others.

Following Brexit, the future of UK financial regulation is there for the taking. The financial sector and its allies in government are seizing this opportunity to further entrench a regulatory framework that prioritises the growth and ‘international competitiveness’ of the City. The last time we allowed financial regulators to become cheerleaders for finance, we ended up with the global financial crisis of 2007-08, which had devastating consequences for the public.

This report illustrates the extent to which powerful financial firms are exerting substantial influence over the policymaking process through the following five channels: financial ties with parliamentarians, lobbying key decision-makers, maintaining a revolving door between finance and government, promoting false narratives, and opposing reforms that would reduce the economy’s structural dependence on financial firms.

Recent polling shows that 76% of the UK public do not believe that Members of Parliament will make decisions that improve their lives (Carnegie UK, 2022). The public is losing faith in our democracy’s ability to deliver outcomes that serve our shared interests, and it’s easy to see why. The pandemic, the climate crisis, and the cost of living crisis are demonstrating how vital it is to have public institutions that work for the public good, and to make sure those in power can’t exploit their position for personal gain. And yet corruption and conflicts of interest have repeatedly made the headlines over recent years. We need public institutions that we can trust to show integrity and act in our best interests.

To achieve financial policymaking that genuinely serves society, we need to introduce new rules that guard against conflicts of interest, disincentivise parliamentarians, civil servants and regulators from shifting to and from the financial sector, improve lobbying transparency, and establish a robust regulatory framework for the financial sector aligned with the public interest. To minimise our economic dependence on banks and card companies, the Bank of England should launch a central bank digital currency and operate it as a public utility, providing a fair and inclusive payment method for all. Finally, the government should support the establishment of a diverse ecosystem of stakeholder banks.

It's high time we reclaim democratic control over our financial system and put it to good use, channelling finance towards a fair and sustainable economy.

Channels through which big finance exerts influence

Channel	Findings
Financial ties	<p>Financial institutions and individuals closely tied to the sector collectively spent £2.3 million directly on MPs throughout 2020 and 2021, partly as payment for second jobs and speeches, and partly as donations, gifts, and hospitality.</p> <p>A fifth of peers in the House of Lords have registered paid positions at financial institutions, including over half of peers on the committee responsible for investigating matters related to economics and finance.</p> <p>Financial institutions and individuals closely tied to the financial sector donated a total of £15.3 million to political parties throughout 2020 and 2021.</p>
Lobbying	<p>Close to a third of Treasury minister meetings in 2020 and 2021 were with the financial sector and its lobbyists, far more than any other sector.</p> <p>There are at least 18 finance trade associations and industry groups in the UK with turnovers above £1 million, with a combined annual turnover of more than £145 million in 2020-2021.</p> <p>Finance-related consultations are frequently dominated by business interests advocating for weaker financial regulation.</p>
Revolving door	<p>Every single former Chancellor of the Exchequer in the past 40 years has gone on to take up paid positions in the financial sector after leaving public office.</p> <p>Over the past decade, financial institutions that hired a former UK Chancellor benefited on average from a 59% increase in meetings with government departments.</p> <p>Almost three quarters of all past and present Bank of England decision-makers have held roles in private finance.</p>
False Narratives	<p>Powerful financial institutions and their allies in government are attempting to build political and public support for the sector by presenting it as the 'engine of the economy' and a solution to environmental breakdown.</p> <p>These narratives misrepresent the overall impact of the UK financial sector, which neglects investment in small businesses and the real economy, and continues to finance fossil fuels to the tune of tens of billions of pounds annually.</p>
Economic dependence	<p>The banking sector derives political power from the persistence of 'too big to fail' banking, and from the fact that policymakers often utilise the financial sector to implement economic policies.</p> <p>The City of London also holds political power on an international scale, as it remains a globally dominant financial centre that other economies depend on.</p>

Summary of recommendations

Recommendation 1: Strengthen standards for the registration of interests for MPs, peers, and Ministers by updating the Members' Code of Conduct and Ministerial Code.

Recommendation 2: Ban second jobs for MPs except for public service roles, and cap the amount they can be paid for speeches.

Recommendation 3: Cap political party donations and require All-Party Parliamentary Groups (APPGs) to disclose funding sources.

Recommendation 4: Extend the statutory Register for Consultant Lobbyists to include in-house lobbyists by amending the Transparency of Lobbying, Non-Party Campaigning and Trade Union Administration Act.

Recommendation 5: Update the Ministerial Code to require departmental disclosures to be published on a monthly basis and to include essential information about the content of meetings.

Recommendation 6: Reform the appointment process for the Bank of England's committee members, ban future external committee members from holding positions at regulated financial institutions while serving at the Bank, and require committee members to disclose their financial interests.

Recommendation 7: Update the Business Appointment Rules to establish longer 'cool off' periods and bans on lobbying for ministers, civil servants, and independent regulators, and establish a statutory body to enforce these rules.

Recommendation 8: Discard plans to introduce growth and international competitiveness objectives for regulators, and instead introduce statutory objectives on financial inclusion and alignment with the Paris Agreement.

Recommendation 9: Require the FCA and PRA statutory panels to consist of at least 50% public interest representatives.

Recommendation 10: Establish a new financial services joint committee to provide in-depth scrutiny over changes to legislation and regulation.

Recommendation 11: Implement a fair and inclusive digital payment method provided as a public utility.

Recommendation 12: Foster a more diverse banking ecosystem that serves the needs of local economies and communities.

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Read the full report at: <https://positivemoney.org/publications/the-power-of-big-finance/>

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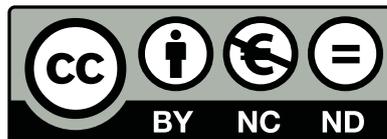
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