Other People's Money

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Suggested hashtag for Twitter users: #LSEecon

LSE events
Other People’s Money

Masters of the Universe or Servants of the People?

John Kay

London School of Economics
October 20th 2015
“I would like to pay tribute to the contribution you and your company make to the prosperity of Britain. During its one-hundred-and-fifty-year history, Lehman Brothers has always been an innovator, financing new ideas and inventions before many others even begin to realise their potential.”

Gordon Brown, chancellor of the exchequer, with Dick Fuld, opening Lehman Brothers’ new London headquarters, 5 April 2004
## Functions of finance

<table>
<thead>
<tr>
<th>Payment system</th>
<th>Wealth management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital allocation</td>
<td>Risk mitigation</td>
</tr>
</tbody>
</table>
## Physical assets of nations, as at end-2012

<table>
<thead>
<tr>
<th></th>
<th>UK (£trn)</th>
<th>US ($trn)</th>
<th>Germany (€trn)</th>
<th>France (€trn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Houses (excl. land)</td>
<td>4.45*</td>
<td>19.71*^</td>
<td>4.52</td>
<td>4.34</td>
</tr>
<tr>
<td>Commercial property</td>
<td>0.77</td>
<td>15.56</td>
<td>2.93</td>
<td>0.99</td>
</tr>
<tr>
<td>Other structures</td>
<td>0.91</td>
<td>6.49</td>
<td></td>
<td>1.22</td>
</tr>
<tr>
<td>Plant and machinery</td>
<td>0.74</td>
<td>6.65</td>
<td>1.15</td>
<td>0.58</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6.86</strong></td>
<td><strong>48.42</strong></td>
<td><strong>8.60</strong></td>
<td><strong>7.12</strong></td>
</tr>
</tbody>
</table>

* Includes underlying land.

^ Household sector only.

Source: OECD
## Household wealth

(US$000 per capita at purchasing power parity, end-2012)

<table>
<thead>
<tr>
<th></th>
<th>UK</th>
<th>US</th>
<th>Germany</th>
<th>France</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net housing wealth</strong> (property value less housing loans)**</td>
<td>63.7*</td>
<td>32.7*</td>
<td>43.7</td>
<td>51.0</td>
</tr>
<tr>
<td><strong>Net cash and deposits</strong></td>
<td>25.2</td>
<td>16.9</td>
<td>30.6</td>
<td>23.8</td>
</tr>
<tr>
<td><strong>Net long-term savings</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance and pensions</td>
<td>64.0</td>
<td>159.2</td>
<td>28.6</td>
<td>44.0</td>
</tr>
<tr>
<td>Directly held in securities</td>
<td>52.9</td>
<td>64.2</td>
<td>27.6</td>
<td>28.8</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>152.9</td>
<td>193.1</td>
<td>112.9</td>
<td>118.7</td>
</tr>
</tbody>
</table>

*Includes underlying land.

Source: OECD, author’s calculations
Sen. Collins: Did you consider yourself to have a duty to act in
the best interest of your clients?

Mr Sparks: I had a duty to act in a very straightforward way, in a
very open way with my clients. Technically, with respect to
investment advice, we were a market maker in that regard. But
with respect to being a prudent and a responsible participant in
that market, we do have a duty to do that.

Sen. Collins: ... did the firm expect you to act in the best interests
of your clients as opposed to acting in the best interests of the
firm?

Mr Sparks: Well, when I was at Goldman Sachs, clients are very
important and were very important and so ...

Sen. Collins: Could you give me a yes or no to whether or not you
have a duty to act in the best interests of your clients?

Mr Sparks: ... believe we have a duty to serve our clients well.

Congressional testimony, 27 April 2010, with
Senator S.M. Collins (R, Maine) and D.L. Sparks,
former partner and head of mortgage department, Goldman
Sachs
Sen. C. Levin (D, Michigan): When you heard that your employees in these emails and looking at these deals said ‘God, what a shitty deal’, ‘God, what a piece of crap’, when you hear your own employees or read about these in emails, do you feel anything?

Mr D.A. Viniar (CFO, Goldman Sachs): I think that is very unfortunate to have on email.

US Senate, permanent subcommittee on investigations, 27 April 2010
Captain Renault: I’m shocked, shocked to find that gambling is going on in here!

[a croupier hands Renault a pile of money]

Croupier: Your winnings, sir.

Captain Renault: [sotto voce] Oh, thank you very much.
[aloud]
Captain Renault: Everybody out at once!

Casablanca (1942), Warner Bros