

Ask Briton what actually goes on in the City of London and you'll be met with a blank stare. Trading the Yen and the Yuan, structuring derivative and providing the world's financial plumbing are all money-spinners, but they barely register in the public imagination. The exception is the stock market. Daily news bulletins report trading on the FTSE 100 index of leading London shares. Booms and busts are chartered by its gyrations. The London Stock Exchange (LSE) is the stamping-ground of giant multinationals, where city-slickers are corporate fat-cats thrash out huge deals to buy and sell the world's companies.



*"I've been saving this baby for the stock market."*

Or at least it used to be. London's high-flying stock market has spent the past decade tumbling back to Earth.

In 2006 the companies with shares listed in London were 10.4% of the global equity market. Today, that figure is 3.6% and its share of Europe's total market value has declined from 36% to 22% over the same time period. The denizens of the LSE that are left look geriatric. Less than one-fiftieth of the FTSE 100's value comes from tech companies, compared with almost 40% of the S&P 500 index of American firms. Some economists have described Britain as having a 19th century stock market.



One reason for Britain's abysmal bourse is the underperformance of large British firms. Too many from BP and GSK to HSBC and Tesco (average age 169), have dropped from the top tier of their industries owing to the chronic British disease of poor management. That has dragged down returns and made some firms vulnerable to takeovers.

The City has also suffered as global firms with international capital-raising options have disappeared. London's revival after the "**Big Bang**" -reforms in 1986 that deregulated trading- relied in part on the stock exchange becoming a venue for mobile global businesses. Recent weeks have seen Prudential, an insurance giant, chose a share offering in Hong Kong and BHP, one of the largest London-listed companies, announced plans to have its sole primary listing in Australia.

The City's final weakness is a dearth of startups that choose to list in London. In 2005 London hosted one-fifth of the world's initial public offerings (IPOs), today it hosts one-twenty-fifth. A stock exchange that continually fails to attract exciting new firms will come to resemble a museum.

It is reasonable to ask how much a puny stock market matters. For British savers, the answer is that it doesn't much. The can, should and increasingly are ditching their home bias and building global portfolios. For Britain's economy, a shrivelled stock market matters more. It limits the options startup founders have to expand their firms.

For the City however, the stock market matters a great deal. London remains a dominant centre for trading debt, derivatives and currencies, but equities are a crucial part of any claim to be a global financial centre. The financial services industry is Britains most successful, contributing 6% of GDP and about a tenth of tax revenue.

Reforms are needed and soon to reverse the decline. These include overhauling corporate governance rules for listed firms, allowing dual-class shares to joint the LSE's premium segment and bringing the asset-management industry into the 21st century. Currently, actuarial rules create a perverse incentive for firms to hold debt and private assets in which volatility is masked because they are valued infrequently. Finally, Britain's 5,327 corporate pension schemes should be merged into a few big managers with the scale to invest more competently.

The good news is that a cohort of promising firms is emerging. In the past few years venture capital has flooded in Britain, which has 34 privately held startups worth over \$1 billion and has created more such companies than France, Germany and Sweden combined. Companies like Revolut, a fin tech star, are reaching critical mass. The government should move ahead to make it easier for startups to hire talented foreigners and let graduates of leading universities move to Britain without a job offer. The prize is a new generation of innovative firms listing in London and the revival of a once-great stock market there. Time for another **Big Bang**.

Be safe, be well!

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