BARCLAYS

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Antony Jenkins speech

Commissioner Hill, distinguished ladies and gentlemen, it is a pleasure to be here in Brussels this morning.

Much has changed since I was here a year ago. We have a new European Parliament, a new Commission, and renewed energy at the heart of Europe. I will not dwell on the past, except to note the depth and breadth of reform I've seen in recent years. That was important work.

We only need to look at the measured reaction of the financial markets to recent events in Greece to understand Europe has become much more resilient. And now under President Juncker and Commissioner Hill, we are looking to the future, and to the question of growth.

That is why Barclays is delighted to be co-hosting the Annual European Financial Services Conference, now in its 13th year, and in the year of Barclays' own 325th birthday. We are proud of our longevity. It gives us a unique view of some of the challenges we face today. We have now made loans in five different centuries. And we were making venture capital deals in the early 1700's. But rather than make us cynical about the potential for change, it makes us aware of how long some of our most pressing concerns have been with us.

Over indebtedness, short termism, and excessive exuberance are nothing new. But they do need to be constantly managed. Humans as a species are fundamentally conservative. When we are faced with a challenge, our first response is to try and fit it into our existing models, not to ask if the model itself is the right one.

Our mind is much better at picturing the world as it is, rather than as it could – or should – be. The will to genuinely innovate is a rare gift. Most of the time that makes complete sense. After all, most technologies are as much the product of a thousand small improvements as they are the result of a single leap of imagination.

But it becomes a problem when the model itself is broken. That was the case after the financial crisis – and arguably even before it. The simple truth is that the old economic settlement didn't work in its own time, and most certainly won't work in ours. We have often been guilty of seeing the global challenge in terms of what worked in the past, asking ourselves. How to restart the housing market, or Where to find new business debt?

These questions seem reasonable enough, but in so many ways they are about the old model, not a new one. They assume that debt and asset bubbles are just part of the cost of doing business. And they say nothing about the new global competitive reality.

Like President Juncker and Commissioner Hill, I am more interested in three alternative questions:

- Where will growth come from?
- How will we fund it?; and
- Is the next generation ready?

I believe that by answering these questions we can lay the foundations for a new model - an Innovation Economy able to compete in the post crisis world. First, the question of where growth will come from.

I am delighted that the new European Commission has put growth and Jobs right at the centre of its work. There is a clear ambition here in the heart of Europe to address the barriers to long term growth. We have to make progress if we want to counter the populism we see all over Europe and to build trust in the concept of a reformed market.

People have every right to query the current economic settlement. It is our responsibility to put forward an alternative proposal for growth which they can support. We are now in a period where GDP growth globally is going to be structurally lower than it was, and combined with long term demographics, there is the potential for constricted economic performance.

Success won't come to us automatically; growth is no longer a right for developed economies. It will have to be earned. But I believe we can - and will - succeed if we approach the next few years in the right way.

We have to support the army of SMEs in our economy. But we also need to be smarter about how we identify and incubate innovation. And we have to rethink employment in an automated world. Some new businesses which are founded to commercialise an innovation go on to thrive.

But more often, innovation happens in a business with a long term track record - and the cash reserves to give that idea every chance of succeeding. In fact, most high growth businesses are older than five years, rather than younger.

Our focus should be on innovation and entrepreneurship – and we shouldn't mind where we find it. I am fascinated by the emerging changes in the business market. Increasingly value creation in high margin goods is separated from where the physical manufacturing happens.

Consumer electronics are a good example. Western companies found a way to compete at a time when the market was largely dominated by low cost innovators from Asia. They realised that the thing they are selling – their competitive advantage – is the design of the product, not the manufacturing process.

The kit is built all over the world in a dizzying journey through Africa, Europe, Latin America, and Asia. And to a high quality. But the real innovation happens at their domestic headquarters, where designers create premium products and branding which consumers are willing to pay extra for. That is where value is created.

It is a powerful new model for the EU economy, and the implications for the workforce are obvious. We will see skilled jobs created here, but automation and international supply chains will have an inevitable impact on less skilled work.

This is an opportunity, as well as a risk. We could stroll towards an employment crisis, or we can completely rethink our education and training for the next generation. We all agree that the trade environment is crucial to the competitive landscape for EU companies.

I admire the energy and skill the EU is putting into building trade agreements with the world. We are, of course, at a very important juncture in the negotiations on the Transatlantic Trade and Investment Partnership. Barclays supports these efforts and we hope that regulatory cooperation in financial services can be part of the final package.

The ability to trade successfully relies on the ability to compete. So we need external consistency of our policy choices.

This will mean coordination with other jurisdictions, one of the reasons I stressed the need to include financial services in the Transatlantic Trade and Investment Partnership. And it will mean not implementing ideas that will put our own businesses at a competitive disadvantage. To give you an example, it is clearly counter-productive to pursue a financial transaction tax which directly reduces the competitiveness of our markets against our US competitors.

But we also need internal coherence. Reform to our sector has to support the wider goal of creating a sustainable economic footing. Capital requirements and markets reform are important for investment banks to operate safely, but we have to be careful that we do not stifle the exact parts of the markets we are going to rely on most in the coming years.

Secondly, the question of how will we fund growth. An Innovation Economy will be development intensive. That requires finance, and finance of a particular nature. As unpopular a statement as it is, there is no material gap in funding for SMEs as a group.

Many banks are in fact not capital constrained, and in the UK right now we have the lowest cost of borrowing in recorded history. We - and many of my competitors - have sufficient capital to respond to a rise in demand. In fact the amount of lending to SMEs by high street banks is now back at its average level, and never fell more than 4 per cent below it.

So I do not see a gap in the market for SME debt. If we could see one, we would fill it with the capital we still have at our disposal. I do see a gap for risk finance at all ages and stages, which is particularly acute for smaller businesses.

We will hear later from Xavier Rolet. I know he will agree that the new Innovation Economy will have to lean heavily on capital markets.

I am delighted to see the Capital Markets Union proposals which come from a similar understanding. We are right behind the Commission's initiatives for securitisation and private placements, which are important in their own right and will provide us with momentum.

But the real change has to come from addressing the much more traditional challenge of matching risk and reward. Ultimately we are returning to the equity gap. We would like to see the creation of a pan-European single market for Venture Capital. We have used the phrase 'Pre-Capital Markets Union'. It is our way of describing an approach to the sort of patient risk finance for smaller innovators which the EU would benefit from.

At the heart of the challenge is harmonising venture capital schemes to make it easier for businesses and investors to find each other across borders. At the moment it is very difficult for a business to raise their first round of venture finance in one country, and the second elsewhere. That seems self-defeating, and we believe that soft harmonisation should be entirely achievable.

Finally I want to return to the most acute deficit we face, in skills. The new Innovation Economy will be knowledge intensive. It is a unique opportunity for us. We can improve our experience as customers, and we can drive up productivity. Take my own sector – automation is nothing new.

Barclays introduced the first cash point in the UK. And we introduced the first credit card.

Although to let you into a secret, the first cash point actually had a staff member sat the other side of the wall, just in case. I promise you we don't do that now.

So automation has always been part of our journey, and today is no different. Low skilled jobs like processing cheques can now be done more quickly and accurately with technology.

And we can pay each other using nothing more than a mobile phone and an app. I am sure some of you use these innovations yourselves. I know I do.

Just as I do the majority of my shopping online. Or travel on the tube and pay for my coffee using my contactless card. And I buy technology which is only possible through the combination of phenomenally skilled engineering and automated manufacturing.

That is the reality of how we behave as consumers. The march of time is towards an Innovation Economy. An economy built on technical skills like science, technology, engineering and mathematics. But the education systems in so many of our countries are not producing these skills.

We can just amend the old model, and produce a generation of young people ready for an unskilled economy which is fading away. That will inevitably lead to mass unemployment and low productivity.

Or we can take the braver path and give our young people the skills the Innovation Economy will demand. Skills like computer code programming. At Barclays we are aiming to establish 100 coding clubs by the end of 2015.

And we have created a training programme for young people called Barclays Code Playground to introduce them to the basics of coding. Vocational training is just as important – apprenticeships can be a powerful way of starting young people on skilled careers.

We have a very successful apprenticeship scheme at Barclays – in fact it is one of the most important ways we hire staff. Three years ago we committed to employing 1,000 apprentices by the end of 2015. By 2013 we had beaten that target, and have now set a new one of 2,800 by the end of year. By 2020, we expect to have reached 6,800.

These apprentices get paid the UK living wage, and have a real career development route, which includes professional qualifications and our graduate level training schemes. I am sure many of you have your own equivalents.

And we shouldn't forget the skills needed to be an entrepreneur. We support 120,000 new start-ups every year. But we need to reduce failure rates. At the moment, only three in ten businesses make it to five years.

So we believe that skills like business management, marketing, and accounts should be part of the mainstream curriculum to give young people with an innovative idea the best chance of being a success. More businesses starting up is one thing, more businesses staying afloat is another.

To conclude - I cannot over-emphasise the responsibility our generation has to give the next one the chance to prosper in the new economy. Europe is at a cross roads. One path leads towards low growth, and a future of unmet demographic exposures.

The other path is towards sustainable growth and an Innovation Economy. It is a choice between making amendments to the old model or having the will to genuinely innovate. I am confident that with the leadership of President Juncker and Commissioner Hill we will make the right decisions. I also know that our speakers today have a lot of wisdom to share on these topics, and I thank you all for listening.