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## Dutch Disease, Crowding out, Brain drain

### **Resource Curse**

“ Widely recognised. Forex inflows bid up real exchange rate, make other tradable sectors internationally less competitive. High-wage resource sector sucks skilled labour from other sectors, public and private.

### **Finance Curse**

“ Similar dynamics. Financial services exports cause appreciation of currency, capital inflows bid up local prices of non-tradables: real exchange rate appreciates, damaging alternative tradable sectors like manufacturing. High-wage finance sector sucks skilled labour from other sectors, public and private.

‘Finance literally bids rocket scientists away from the satellite industry. The result is that erstwhile scientists, people who in another age dreamt of curing cancer or flying to Mars, today dream of becoming hedge fund managers’ (Cecchetti and Kharroubi 2012, 1).

## Economic Instability

### Resource Curse

- “ Follows commodity cycles. Drivers mostly external.

### Finance Curse

- “ Cycles track financial booms and crises. Drivers often internal.

## Higher private debt, public debt

### Resource Curse

“ when commodity prices are high, bankers lend freely; when prices fall, debt rises further as arrears build. A ratchet effect.

### Finance Curse

“ Also a debt ratchet effect, but boom-bust cycles, underlying drivers are different. Private debts driven by intra-financial lending, housing: these become public debts after crises.

## Long term growth damage

### Resource Curse

“ Growth below ‘potential;’ for some, a ‘curse’ is evident.

### Finance Curse

“ *The growth of a country's financial system is a drag on productivity growth [and] reduces real growth. . . financial booms are not, in general, growth-enhancing, likely because the financial sector competes with the rest of the economy for resources. (Cecchetti and Kharroubi 2015)*

## Corruption, Rent Seeking

### Resource Curse

“ Fundamental part of Resource Curse. “Easy rents” from oil. Politics becomes winner-takes all game of who gets what: favoured clients benefit.

### Finance Curse

“ Myriad rent seeking activities in City of London. Finance abhors chaotic local corruption, but official tolerance for foreign ‘corrupt’ and dirty money creates rent-seeking opportunities. Products often designed to undermine, arbitrage or circumvent state regulation.

## Damage to entrepreneurialism

### Resource Curse

“ “Easy rents” from resources distract, detract from tasks of building alternative sectors, made tougher by crowding-out.

### Finance Curse

“ “Easy rents” from finance distract, detract from tasks of building alternative sectors, made tougher by crowding-out.

## Inequality

### Resource Curse

“ Inequality fueled by high, resource-based incomes at the top, and corruption which privileges wealthiest. Crowding out and damage to other sectors impacts the bottom.

### Finance Curse

“ Links between financial services growth and inequality widely acknowledged. Key difference with resource curse: much of financial wealth at the top is extracted from those lower down the income scale, e.g. via ‘socialisation of losses’. Political capture worsens inequality via policy capture, financialisation, preferential tax treatment to City firms etc.

## Conflict

### Resource Curse

“ Battles for “share of the cake” foster conflict: political and even military

### Finance Curse

“ International/offshore finance abhors instability: military conflict is a no-no, though economic warfare, e.g. through tax wars (beggar-thy-neighbour processes) and regulatory degradation abounds.

## Political Capture, Repression

### Resource Curse

“ Local society can be ‘surplus to requirements’ as resource revenues flow in; revenues can pay for brute force to suppress dissent.

### Finance Curse

“ Repression mostly limited to protests about finance, and privileges of wealthy. Repression is most visible in small havens. Political, cultural, societal repression. Usually subtle: brute force is very rare.

## Relocation Risk

### Resource Curse

“ The oil is in the ground, and won’t flee: low relocation risk. Yet resource sector interests often whip up fears of relocation to gain privileges.

### Finance Curse

“ Relocation risk exists but usually far less than feared: finance is rooted in cluster effects. Much of the sector is domestic. Yet finance sector interests win privileges by whipping up often unjustified fears via “Don’t tax or regulate us too much or we’ll flee to lower-tax, laxer-regulated places”. “Race to bottom:” deregulation, tax-cutting, is contagious.

## International contagion, inwards and outwards.

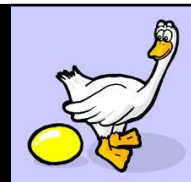
### Resource Curse

“ Outwards contagion not significant. Most oil producers aren't big enough to destabilise world oil markets. Inwards contagion from global booms and busts.

### Finance Curse

“ International interconnectedness increases financial sector opacity, instability and crises impacts International contagion works in both directions.  
“Competitiveness” fears transmit deregulation/tax-cutting inwards.

- “ ‘UK financial services contributed £65bn in tax revenue in 2012/13, accounting for 12% of total UK tax receipts’.
- “ This is ‘enough to cover three-quarters of the projected public sector deficit for 2014/15’ (2014, 5)
- “ 2 million employed in finance
- “ 2013 trade surplus of £55bn



## Gross versus net

- “ Haldane and Madouros (2011) of the Bank of England:
- “ *[T]he value of financial intermediation services is significantly overstated in the national accounts . . . High pre-crisis returns to banking . . . reflected simply increased risk-taking across the sector. This was . . . a traverse up the high-wire of risk and return. In what sense is increased risk-taking by banks a value-added service for the economy at large? ... Bearing risk is not, by itself, a productive activity.*

## 60/40 scale down

- “ PWC's 'Total Tax Contribution' includes taxes paid by suppliers, workers and customers
- “ Engelen et al. estimate gross contribution of £193bn between 2002-3 and 2007-8, or £32bn per year (2011, 147-48). 40% scale-down factor cuts average total tax contribution over these five years to £12.8bn
- “ TheCityUK (2014, 17) estimate financial sector corporate tax contribution of £5.4bn, yields a scaled down figure of £2.16bn



## Employment 60/40

- “ TheCityUK national employment of 800,000, not over 2 million.
- “ Buchanan et al. (2009, 13) estimate direct employment in the sector at 1 million. Half of direct employment in the financial sector is in banking (432,000) and 80% of this in the more locally rooted ‘utility’ sector.
- “ ‘finance remains a relatively small source of employment, which has created almost no new jobs over the past fifteen years’.

- “ Arcand et al. (2012) report that ‘GDP growth reaches a maximum when credit to the private sector is at 76 percent of GDP’
- “ On Eve of crisis for Ireland, the Netherlands and the UK the figures stood at 220%, 193% and 211% respectively (World Bank 2013).
- “ British household and financial sector debt was higher than any other G7 member state (Thompson 2013, 476-478). ‘Financial sector debt was central to UK growth before the crisis and is now an ongoing burden on the UK economy. Exposed bank balance sheets and weak lending make recovery from recession through other sectors extremely difficult’ (Thompson 2013, 490).

## Political capture

- “ 51.4% of donations to the Conservative party over 2010-2011 came from financial sector (Mathiason 2011).
- “ ‘in reporting the banking crisis, the parameters of debate on the *Today* programme are set by a narrow group of City sources, regulators, IMF spokespersons and front bench politicians’ (Berry 2012, 14).
- “ 2 weeks surrounding bank bailouts option of full-scale bank nationalization effectively erased from agenda, more than 70% discussants City sources (Ibid., 15).

## Exports

- “ Competitive Contagion
- “ IMF research on transmission of funding strains from Greece 2010 shows British offshore networks playing central role in transmitting contagion (Moghadam and Viñals 2010, 19).  
“UK’s Offshore Archipelago” (Haberly and Wójcik 2014)
- “ U.S. criminologist described HSBC tax evasion and political scandal 2015, ‘the inevitable result of the City of London “winning” the regulatory “race to the bottom” and becoming the financial cesspool of the world’ (Black, 2015).