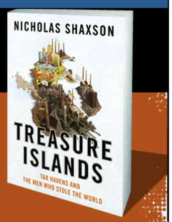
From the "Resource Curse" to a "Finance Curse?"



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Core thesis

- Countries dependent on large financial sectors tend not to harness the wealth generated for national development
- Many of the symptoms and drivers of this phenomenon resemble those of the "Resource Curse" that afflicts mineral-rich countries.
- There is a "Finance Curse."
- This Curse afflicted finance-dependent countries long before the recent global financial crisis

Resource Curse

- Mineral-rich countries don't seem to be able to harness resources like oil effectively to benefit their populations ("weak" Curse.)
- It is often worse than that: they can be actively harmed ("strong" Curse.)
- Academic studies all confirm the weak version, but many disputes over the strong version

Resource Curse Symptoms

- "Crowding out" of alternative sectors
- Dutch Disease
- Revenue volatility
- More authoritarianism
- More conflict
- More corruption
- More debt ('ratchet')
- More inequality, often higher poverty too
- Slower economic growth

Example: Angola

- 2m barrels per day
- Life expectancy at birth: 51.1, world's fourth worst
- GNI rank minus HDI rank: -38
- I lived there 1993-95, 'worst war in the world'
- Staggering poverty, corruption
- Etc.

Exceptions to the Curse?

- Norway
- Chile
- Botswana

- Each has its own peculiar characteristics which helps explain its better performance
- Do they prosper because of their minerals or despite their minerals?

A Finance Curse?

- Big and small
  - UK: finance is 8-10% of GDP
  - Jersey: finance is over 50% of GDP
- Large overlap of Resource Curse symptoms, some differences. Some remarkable similarities

The FC challenge: the world's richest countries

Rank	Country	GDP per capita (at PPP)	Rank	Country	GDP per capita (at PPP)
1	Qatar	$ 98,900	11	United States	$ 48,300
2	**Liechtenstein**	$ 89,400	12	United Arab Emirates	$ 47,700
3	**Luxembourg**	$ 80,600	13	**Guernsey**	$ 44,600
4	**Bermuda**	$ 69,900	14	**Switzerland**	$ 44,500
5	**Singapore**	$ 59,700	15	**Cayman**	$ 43,800
6	**Jersey**	$ 57,000	16	**Gibraltar**	$ 43,000
7	Falklands	$ 55,400	17	Netherlands	$ 42,000
8	Norway	$ 53,400	18	Kuwait	$ 41,700
9	Brunei	$ 49,500	19	**Austria**	$ 41,600
10	**Hong Kong**	$ 49,400	20	Ireland	$ 40,800

The FC challenge : the world's richest countries

- 11 of the top 20 richest countries in this table are finance-dependent economies
  - Liechtenstein, Luxembourg, Bermuda, Singapore, Jersey, Hong Kong, Guernsey, Switzerland, Cayman, Gibraltar, and . . . Austria (source: CIA).
- Conclusion: therefore a big financial sector is good for your economy?
- **Wrong**! Because . . .

Wrong 1

- Selection bias: Correlation is not causation.
- Finance inevitably gravitates to countries that are *already* well-governed and wealthy.
- Would you use Somalia because it offered a new secrecy facility or regulatory loophole?
- Same selection bias in other tables (such as those based on UN's HDRs.)

Wrong 2: GNI rank minus HDI rank

Table 1

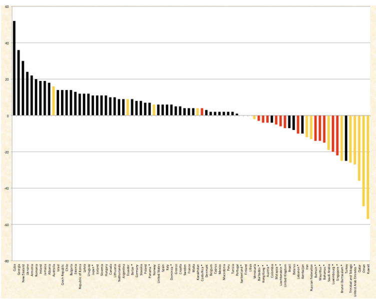


Table 1, from UN Human Development Index 2011

- GNI ranking minus HDI ranking (rank 1 = good)
- Negative number indicates wealth is not being translated effectively into wellbeing
- Yellow: mineral dependent economies
- Red: finance dependent economies
  - Includes Austria: (minus 4)
- Black bars: others ("normal countries")
- Stark graph. Conclusion: mineral wealth, financial wealth, aren't being harnessed effectively.

Wrong 3: similar symptoms

- Many other "Resource Curse"-like symptoms
  - Higher inequality
  - Higher poverty rates?
  - Volatility, crises
  - Crowding out, death of alternative sectors
  - Loss of entrepreneurialism
  - Authoritarianism
  - Corruption, criminalisation (Jersey, UK)

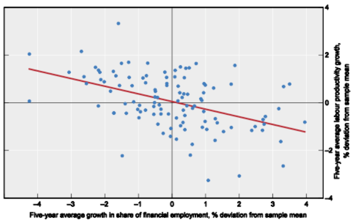
BIS report

- *Beyond a certain point, financial development is bad for an economy. Instead of supplying the oxygen that the real economy needs for healthy growth, it sucks the air out of the system and starts to slowly suffocate it.*
- *- **Stephen Cecchetti**, author of a Bank for International Settlements (BIS) study on the issue, 2012*

BIS report 2

Productivity growth and growth in the financial sector

(16 OECD countries, 1980–2009)



Wrong 4: similar drivers

- Dutch Disease
- Crowding out of alternative sectors
  - Dutch Disease
  - Sucking out most educated people from government, private sector
  - Access to capital: not financing for small busines
- Volatility. (financial crises!)
- More debt (!)
- Effects on governance

Semi-similarities

- Authoritarianism – not so obvious, but potent effects.
  - James Carville effect
  - The anti-democratic threat: "Don't tax or regulate us too much or we'll go to Geneva or Hong Kong"
- Enclave economy, offshore island. (Perhaps) less so than Resource Curse
- 'Capture' of policy-making. More so than Resource Curse
- Corruption. Jersey former health minister Syvret:
  - *"Jersey is governed by a crypto-feudal oligarchy which, of itself, is captured by the international offshore banking industry. It is a gangster regime, cloaked with the 'respectability' of the trappings of the British establishment"*

END