THE FINANCE CURSE

How Global Finance Is Making Us All Poorer

NICHOLAS SHAXSON

Author of the international bestseller *Treasure Islands*

VINTAGE

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About the Book

Global finance is a system that works for the few and against the many.

We need finance – but when finance grows too big it becomes a curse. The City of London is the single biggest drain on our resources; it sucks talent out of every sphere, it siphons wealth and hoovers up government time. Yet to be 'competitive', we're told we must turn a blind eye to money-laundering and appease big business with tax cuts. We are told global finance is about wealth creation; the reality is wealth extraction.

Tracing the curse back through economic history, Shaxson uncovers how we got to this point. He exposes offshore tax havens; the uncontrolled growth of monopolies; the myths around the Celtic Tiger and its low corporate tax rate; the bizarre industry of wealth management; the destructive horrors of private equity; and the sinister 'Competitiveness Agenda'.

Nicholas Shaxson revealed the dark heart of tax havens long before the Panama and Paradise Papers. Now he tells the explosive story of how finance established a stranglehold on society and points us towards a way out.

This is a book that none of us can afford to ignore.

About the Author

Nicholas Shaxson is the author of Treasure Islands: Tax Havens and the Men who Stole the World and Poisoned Wells: the Dirty Politics of African Oil. He is a journalist, a campaigner and world expert on both tax havens and financial centres; and on the Resource Curse. His writing has appeared in Vanity Fair, Financial Times, The Economist, The Economist Intelligence Unit, and many others. He is part of the organisation the Tax Justice Network.

Also by Nicholas Shaxson

Poisoned Wells: The Dirty Politics of African Oil
Treasure Islands: Tax Havens and the Men who Stole the World

For Emma, Oscar and George.

The Finance Curse

How Global Finance Is Making Us All Poorer

Nicholas Shaxson

THE BODLEY HEAD
LONDON

Introduction

If you've recently bought a ticket through Trainline, the digital rail ticket seller, you may have paid a small booking fee, perhaps 75p. Your rail journey may have been straightforward, but the journey taken by that little booking fee after it left your bank account would have been more extraordinary.

Trainline.com Limited, the London-based company that runs the service, is owned by another company called Trainline Holdings Limited. That company is owned by another, which is owned by another, and so on. Five companies above Trainline.com, your little booking fee would skip out across the English Channel to the tax haven of Jersey, then back again to London, where it would pass through five more companies, then hop back out to Jersey once more, before migrating over to the European mainland where it would enter the accounts of two companies in Luxembourg, another tax haven.

Along the way, all sorts of other rivulets join in and leave the tinkling, rustling flows of money, as different companies in this hierarchy borrow money from banks, or from each other, or inject and lend cash back and forth, sometimes at eye-wateringly high interest rates. Once it has reached Luxembourg, our brave little 75p enters a financial tunnel where it becomes a little harder to track. But it soon pops up again, this time in the Caribbean, where it dances upwards through three or four more mysterious and impenetrable Cayman Islands companies. There, having already passed through twenty or so companies after leaving your bank account, it joins a multitude of other financial streams and rivers from around the world, which come together and flow into the United States and into the maw of KKR, a giant US investment firm.

The river of money doesn't even stop there, though. It then flows onwards into the accounts of KKR's shareholders: the world's biggest banks, investment funds and wealthy individuals – including

KKR's two surviving founders, the billionaires George Roberts and Henry Kravis. Since it did its first deal in 1977, KKR has bought full or partial stakes in nearly 300 real, solid companies including Safeway, Toys R Us, Alliance Boots, Del Monte foods, the makers of the Sonos wireless hi-fi system, Boots the chemist, and Trainline. KKR makes most of its money by re-engineering companies for profit, and if they haven't gone bankrupt, selling them off. At the last count, it still owned over 180 real companies. I say 'real' because KKR actually owns or controls well over 4,000 corporate entities, including over twenty in Jersey, over 200 in Luxembourg, and over 800 in the Cayman Islands, most of which are detached from the lives of real people and exist only in the accountants' virtual reality world. Each solid underlying company in the KKR empire, like Boots or Trainline, has one of these convoluted corporate structures perched on top of it, snaking chains of entities often with peculiar names drawn from finance's arcane lingo, like (in Trainline's case) 'Trainline Junior Mezz Limited' or 'Victoria Investments Intermediate Holdco Limited'.[1]

None of what I have described so far is remotely illegal: in fact, this is increasingly the way business is done. But the example of Trainline's corporate architecture does raise some big questions.

Question one is this: what is it all for?

To answer this, it is necessary to understand financialisation, a phenomenon that first properly emerged in the 1970s and has slowly, silently, crept up on us all. Financialisation has involved a massive growth in the size and power of the financial, insurance and real estate (FIRE) sectors, and it has also seen financial markets, techniques, motives and ways of thinking penetrate ever deeper into our economies, our societies and even our culture. Trainline's corporate structure is an example of this second aspect of financialisation, where the bosses of companies that create real wealth in the economy – by making widgets and sprockets, finding cures for malaria, selling toys or package holidays, or creating efficient platforms for selling rail tickets – are increasingly encouraged to turn their attentions away from the hard slog of trying to boost productivity and genuine entrepreneurship, and towards the more profitable sugar rush of financial engineering to tease out more profits for the owners.

Half a century ago it was widely accepted that the purpose of corporations was not just to make profits, but also to serve employees, communities and wider society. In the era of financialisation of the last few decades, our businesses have undergone a massive transformation. The purpose of business has been whittled down to little more than a single-minded focus on maximising the wealth of shareholders, the owners of those companies. Trainline's convoluted corporate structure is actually a *financial* structure sitting on top of the real, genuinely useful work going on underneath, and it siphons money upwards in whizzy and sophisticated new ways. It is just one example of the financialisation at work, all around us, almost everywhere we turn.

There is a second big question about this corporate complexity. The Trainline group of companies earned around £148 million in revenue from UK customers in 2017: that's a lot of 75p booking fees. Trainline has provided you with a useful service: a train ticket, with minimal hassle. But should it have levied £148 million or so on Britain's rail commuters in 2017 for providing this service?[2] Could it have provided just as good a service for half this cost? How much of this £148 million represents genuine added value, plus a reasonable reward for any risk-taking, and how much represents unwarranted wealth extraction by this company with a rather privileged position in rail ticket sales? It isn't easy to answer this question, not least because a lot of the financial pipework is hidden in Jersey, Luxembourg and the Cayman Islands, but also because it is partly a philosophical question: where do we as a society want to draw the line, and judge profits to be excessive? What we do know is that Britain's beleaguered rail travellers are paying a lot of money to Trainline – and that KKR and its investors are making a lot of money. Whatever we judge the size of the excess profits to be, that is a hidden tax on British rail travellers.

In the era of financialisation, the corporate bosses and their advisers, and the financial sector, have moved away from creating wealth *for* the economy, and towards extracting wealth *from* the economy, using financial techniques. Financialisation has unleashed gushers of profits for the owners and bosses of these firms, while the underlying economy – the place where most of us live and

work – has stagnated. The profits, and the stagnation, are two sides of the same coin: wealth extraction.

This is a central part of what I call the finance curse. The concept of the finance curse is simple: it's the idea that once a financial sector grows above an optimal size and beyond its useful roles, it begins to harm the country that hosts it. Finance turns away from its traditional role serving society and creating wealth, and towards often more profitable activities to extract wealth from other parts of the economy. It also becomes politically powerful, shaping laws and rules and even society to suit it. The results include lower economic growth, steeper inequality, inefficient markets, damage to public services, worse corruption, the hollowing-out of alternative economic sectors, and widespread damage to democracy and to society.

To unpack the idea of the finance curse we'll go on a century-long journey that spans the globe; from the era of American robber barons in the early twentieth century, through the 1950s to explore the rebirth of the City of London as a global financial centre after the fall of the British empire, to the birth of modern British tax havens in the Caribbean in the 1960s, then to explore the early roots of Ireland's Celtic Tiger economy in the 1970s and 80s, and then on to uncover some surprising truths about London's outsized role in generating the global financial crisis. After the crisis, we enter the peculiar world of wealth managers, examine the billionaire-friendly subterfuges and immense powers of the accounting giants, and follow the twisting corporate trails leading from care workers in northern England up to the glittering offices of private equity moguls in Mayfair. And we will see how, all along the way, evidence has been beaten, twisted and abused to perpetrate a great hoax upon the public, persuading us that all this activity is normal, necessary and even a good thing. It is anything but.

The finance curse concept has a long history. It began in the early to mid-1990s when I was working as a correspondent for Reuters in oil-rich and diamond-rich Angola, which the United Nations at the time said was suffering the worst war in the world. Every Western visitor I met asked me a version of the same question: how could the people of a country with such vast mineral wealth be so

shockingly, appallingly destitute? Corruption was one answer, of course: a venal leadership was getting extremely rich from the oil money, eating lobsters and drinking champagne on the beach in the capital Luanda while their ragged and malnourished compatriots slaughtered each other out in the dusty provinces. But something else was going on too.

I didn't know it then, but I was getting a front-line view of a grand new thesis that academics were just starting to put together, known as the resource curse.[3] Academics had worked out that for many mineral-rich countries like Angola, their natural resource abundance seemed to result in slower economic growth, more corruption, more conflict, more authoritarian politics and greater poverty than their resource-poor peers. If you remember just one thing about the resource curse, then remember this: it's not just that mineral-rich countries don't harness their mineral riches to benefit their people, or that powerful crooks snaffle the wealth and stash it offshore, though that is also true. The big point is that all this money flowing from their natural resource endowments can make their populations *even worse off* than if the riches had never been discovered. In short, more money can make a country poorer. That's why the resource curse is also sometimes known as the Paradox of Poverty from Plenty. It affects different countries in different ways – some countries, like Norway, even seem to have benefited from their minerals – but few people in Angola back then doubted that the minerals that were feeding the war had cursed their country in deep and long-lasting ways.

As I wrote about the resource curse in Angola, John Christensen was reading my articles, and noticing more and more parallels between what I was describing in Angola, and what he was seeing in the British tax haven of Jersey, where he was the official economic adviser. 'I was fascinated by this counter-intuitive concept that too much oil and gas wealth could make you poorer,' he recalled. 'The more I read about it, the more I thought "But this is Jersey!" The parallels with Jersey were uncanny.' And he understood a bigger point: it wasn't just finance-dependent Jersey that was suffering something like Angola's resource curse. It was Britain too. (Christensen, horrified by the venality he had seen in

Jersey's tax haven sector, left, and in 2003 and helped set up the Tax Justice Network, an organisation to fight against tax havens.)

The parallels between Britain and Angola start with the basic fact that each country is dominated by a large economic sector: oil, in Angola's case, and finance, in Britain's. As a measure of this, UK banking assets stood at the equivalent of around 50 per cent of annual national income (or GDP) for a century or so before 1970, then suddenly roared upwards as the era of financialisation got under way. By 2006, just ahead of the global financial crisis, UK banking assets had reached 500 per cent (or five times) GDP, a ratio that hasn't since changed very much. This is twice the European average, and four to five times that of the United States. If you widen this beyond banking to include assets held by insurance companies and other financial institutions, it is well over ten times GDP.[4]

In Angola and in other countries up and down Africa's oil-soaked western coastline, I'd watched the oil sector draining the life out of other parts of the economy. All the best-educated people were being sucked out of industry, agriculture, government, civil society and the media, and were instead flocking towards the high-salaried oil jobs.

Those clever people who *did* stay in Angola's government soon lost interest in the difficult challenges of national development, whose prospects oil had savaged anyway, and politics became little more than a corrupting, conflict-ridden game of jostling to get access to the flows of oil money. The City of London has achieved something remarkably similar with Britain's best and brightest. 'Finance literally bids rocket scientists away from the satellite industry,' wrote the authors of a well-known academic study on the rise of finance and economic growth. 'The result is that people who might have become scientists, who in another age dreamt of curing cancer and of flying people to Mars, today dream of becoming hedge fund managers.' Among other important things, the financial brain drain out of politics and into highly paid finance is a big reason why Britain has had such poor prime ministers recently.[5] Many excellent possible candidates have been diverted into hedge funds, their talents washed away in a deluge of money. With this

giant shift of political focus, balanced national development takes a second hit.

In Angola the cascading inflows of oil wealth raised the local price levels of goods and services, from housing to haircuts. This high-price environment caused a third wave of destruction to local industry and agriculture, which found it ever harder to compete with imported goods. Likewise, inflows of money into the City of London (and money created in the City of London) have had a similar effect on house prices and on local price levels, making it harder for British exporters to compete with foreign competitors.[6]

Oil booms and busts also had a disastrous effect in Angola. Cranes would festoon the Luanda skyline in good times, then would leave a residue of half-finished concrete hulks when the bust came. Massive borrowing in the good times and a build-up of debt arrears in the bad times magnified the problem. In Britain's case, the booms and busts of finance are differently timed and mostly caused by different things, but as with oil booms, it has a ratchet effect. In good times the dominant sector damages alternative economic sectors, but when the bust comes, the destroyed sectors aren't easily rebuilt. And bankers – who famously are the sort of people who will lend you an umbrella when it's dry but want it back once it rains – reinforce it all by turning on the credit taps during booms, amplifying their effects, then whipping away the goodies when things go bad, worsening the slump.

In a more 'normal' economy like France's, wealth is created at the bottom by many people working in diverse fields: in factories, construction, banking, fishing or catering. The government contributes by paying for the police, roads, schools, the rule of law, the sewers, and so on. Governments must then bargain with voting citizens and their businesses to raise the taxes from them, and this bargaining develops healthy lines of accountability. But when you have oil money sluicing in at the top of the political system, you don't need to bargain with your citizens any more. Oil money washes away checks and balances and institutions, leaving rulers with a crude political formula: they allocate wealth, or permissions to access wealth, in exchange for loyalty. If your citizens complain, the oil money pays for paramilitary police to keep them in their place. (For this reason, oil economies are often authoritarian.) I

sometimes picture an oil-dominated economy like Angola's as a river, with flotillas of boats loaded with treasure – the oil wealth – gliding downstream. Along the way there are gatekeepers exacting tolls from the passing boats. The big diversions occur far upstream, and as it flows downwards and splits into ever more rivulets, there is steadily less to go around. Most people live far out at the end of the river delta, where there is almost nothing left.

Something similar is happening in Britain. Britain has a far more diversified economy than Angola's, so plenty of wealth is being generated at the bottom – but there is also a gusher of wealth flowing in at the top, not from pipes inserted into the ground but instead engineered by the financial sector, much of it siphoned out from other parts of the economy. These top-down wealth flows from the financial sector haven't exactly turned Britain into an authoritarian state (though this has certainly happened to a fair degree in some of the smaller tax havens where financial dominance is much greater), but what *has* happened is that finance is often in conflict with other parts of the economy, and in these battles finance always seems to win out.

All these factors have conspired to damage the non-oil economies of both Angola and Britain. Britain's industrial decline hasn't been nearly so calamitous – but Angola's past carries big lessons for our future. Excessive prosperity in the dominant sector can strangle other sectors. And those thrilling flows of money flooding into your country are likely to stunt economic growth over the long term, and damage your country in many ways.

It is no coincidence that the decline of British manufacturing since the 1970s has been so much faster than in other industrial economies, at the same time as Britain's financial sector assets have grown so much larger as a share of the economy than in comparable Western nations. It is no coincidence, either, that – for all the trillions of dollars that sluice through the City of London and the glitzy oligarchs who populate our restaurants and theatres – the United Kingdom as a whole is no better off than its peers: if anything, it's worse off. Britain's GDP per capita is lower than that of its northern European peers, but it is also a much more unequal place, and with poorer overall scores on health and well-being.[7]

You'd expect the enormous growth in our financial sector to have generated a fountain of investment capital for other sectors in our economy, but the exact opposite has happened. A century ago, 80 per cent of bank lending went to finance business. Now, banks are lending mostly to each other and into housing and commercial real estate: little more than 10 per cent of UK bank lending goes to businesses outside the financial sector.[8] Investment in the non-financial parts of the UK economy has been less than that of Italy. In fact it is the lowest of any G7 economy. And this is a long-term trend: since 1997 this investment share has been the lowest in the OECD, a club of thirty-four rich countries which includes Mexico, Chile and Turkey. Many British people take pride in our supposedly 'competitive' low-tax, high-finance economy – but on an income-per-person basis, Britain's economy is smaller than that of nearly all its northern European peers, and its productivity is a full 25 per cent lower than high-tax France. Outside of London, British productivity is lower still, and has been for a very long time.[9] To compensate for this sluggishness, and to escape from politically difficult choices, successive governments have filled the holes with policies of financial loosening, which has allowed bank credit to grow three times as fast as the underlying economy since the 1960s.[10] And yet most of this credit has been circulating in the financial sector, unmoored, disconnected from the real economy and from the people it is supposed to serve. The transformation that has happened in the era of financialisation has had little to do with the needs of ordinary business and ordinary people.

The same question emerges here again, but on a bigger scale: *what is it all for?* John Kay, one of Britain's best-known financial commentators, poses this question himself, and adds this observation: 'If a closed circle of people keep exchanging bits of paper with each other, common sense suggests that the overall value of these bits of paper won't change much. If some members of that closed circle make extraordinary profits, these profits can only be made at the expense of other members of the same circle.'[11]

But the finance curse analysis shows that it seems to be even worse than that: all this money swirling around our oversized financial sector seems to be making us collectively poorer. The

mainstream narrative in Britain is that the City of London is the goose that lays the golden eggs. But the finance curse reveals the City to be a different bird: a cuckoo in the nest that is crowding out other sectors.

We all need finance. We need it to pay our bills, to help us save for retirement, to redirect our savings to businesses so they can invest, to insure us against unforeseen calamities, and also sometimes for speculators to sniff out new investment opportunities in our economy. We need finance – but this tells us nothing about how big our financial centre should be, or what roles it should serve. The measure of finance's contribution to our economy is whether it provides useful services to us at a reasonable cost – not whether it produces large profits and high salaries. Imagine if telephone companies suddenly became insanely profitable and began churning out lots of billionaires, and telephony grew to dwarf every other economic sector – but our phone calls were still crackly and expensive and the service unreliable. It would be obvious that something strange was going on.

The rise of finance and financialisation has not been a zero-sum game that transfers wealth from poorer majorities to a relatively small number of players in the financial sector. It is a long-term, negative-sum game. A lot of evidence and research is now emerging to show that once the financial sector in a country grows beyond a certain size it starts to turn away from its critically useful functions and towards more lucrative and more destructive goals. Further expansion beyond this optimal size tends to make the economy that hosts it grow more slowly and generate a range of other harms. Britain's financial sector passed its optimal size long ago. And this raises more big questions. First, where is the tipping point? Second, how big is the damage?

On the first question, I will take a more historical and political approach and through this book I will describe how the first seeds of trouble were sown in the 1950s, an era when Britain lost its empire and when the City of London faced powerful democratic forces at home which curbed its profits and its power, and which delivered unprecedented growth to other parts of the economy.

The City then began to construct a new globalised financial model, which was so successful for the City that some have described its rebirth as the dawn of a second British empire. After these early beginnings, this new model began to emerge in the 1970s, and the damage began to mount in earnest.

On the second question, we can take a more data-orientated approach. In 2016 two US finance academics, Professor Gerald Epstein of the University of Massachusetts, one of the US's best-known authorities on financialisation, and Juan Montecino of Columbia University, published a document called *Overcharged: The High Costs of High Finance*. It was a kind of finance curse analysis for the United States, and it sought to use established methods to create an estimate of the overall damage created by an outsized financial sector in the US. Their conclusion? That the US financial system will impose an excess cost of between $12.9 trillion and $22.7 trillion on the US economy between 1990 and 2023, thereby 'making finance in its current form a net drag on the American economy'. This calculation of the benefits of the financial sector to the US economy, minus the costs imposed by the financial sector on the US economy, is equivalent to a net $105,000–$184,000 for the average American family: without this loss, the typical US household would have doubled its wealth at retirement. The US economy would have been stronger today if the US government had simply paid its highest-paying financiers their full salaries, then sent them off to live in luxurious gated communities to play golf all day.

In 2017 John Christensen and I discussed with Epstein and Montecino the possibility of producing a similar calculation for Britain. They did so, and I can now reveal the results. Overall, they estimate the costs of the damage to the UK economy from having an oversized finance sector at £4.5 trillion, plus some. To put that in perspective, that is equivalent to two and a half years' economic output, or £170,000 per household. That gives an idea of how much more the average family might have saved, had the UK financial sector been the optimal (much smaller) size, and serving society as it should.[12]

These are conservative numbers, in purely numerical terms. But there is also a large range of unmeasurable costs to add to the

numbers. One is that the finance curse has powerful racial, gender, geographical and generational effects. Pretty much every time, as I will show, financialisation and the rise of finance tends to mean wealth and power are extracted from the more disadvantaged groups, and delivered up to those least in need of it, worsening inequalities of wealth and power across many dimensions. Another potential cost that cannot be measured is that excess finance, by worsening these inequalities, will have added to a pervasive sense of injustice among many British people, and contributed significantly towards the Brexit vote.

A further unmeasurable cost is the rise in organised crime and other abusive activities that happen in the City of London. It's impossible to convey here the sheer scale of this. A good indication though can be found in a list entitled 'Robert Jenkins' partial list of bank misdeeds'. This list is a kind of running score published and updated by a group called Finance Watch. Jenkins is a former member of the Bank of England's Financial Policy Committee and a former Citigroup and Credit Suisse banker, who has seen it all. His list enumerates the multitude of ways in which banks do wrong. It begins, for example, with '1. Mis-selling of payment protection insurance' ('mis-selling' is usually a euphemism for fraud). And it goes on like this, for a long time. Each element is a shocker. Coming in at number 11, there's 'Abusive small business lending practices', a hallmark of modern finance. At number 16, there is the humble 'Aiding and abetting tax evasion' – a sport that has cost treasuries around the world hundreds of billions. Number 17 is 'Aiding and abetting money laundering for violent drugs cartels', a reference to, among other things, the role played by HSBC in washing hundreds of millions of dollars for Russian gangsters and for Mexico's Sinaloa cartel. Number 19 is 'Manipulation of Libor', referring to the numbers used to calculate payments in the $800 trillion derivatives market, and a whole lot more besides. Number 61 is the less weighty 'Offers to procure prostitutes to curry favour with Sovereign Wealth Fund clients'. Tucked away at number 109, there's 'Facilitating African money laundering on a grand scale'.

At the time of writing, this list contained 144 items – and counting. Each represents a large can of villainous worms. And this

is only a *partial* list of the misdeeds – and even then, this only refers to *banks*. Trying to get your arms around all this feels a bit like trying to convey to a child the distances between galaxies in the known universe. Many of the costs these activities impose on society lie outside the scope of our estimate of £4.5 trillion in damages.

It is certainly possible to raise all sorts of objections to this gigantic £4.5 trillion number – and defenders of the City of London will doubtless shoot plenty of arrows at it. But this is a *better* estimate than the standard dominant narrative that has emerged from the City, which involves simply totting up the total number of jobs, tax revenues, or the financial services export surplus, thereby discreetly stripping out all the costs, and then calling this the 'contribution' of finance to the economy and flogging it to the media. Without including the costs of oversized finance alongside the benefits, the City's numbers are meaningless. Theirs is a gross figure, this new research provides a net figure – which turns out to be large and negative. As ever, more research is needed here.[13] But for now it is the best numerical estimate of how far the City has outgrown its useful role. And it is a good starting point for understanding the scale of the finance curse.

By now, a new question emerges: why have we put up with an overgrown sector that is making us worse off? A large part of the reason lies in a narrative we're fed by politicians and by the many players in the City of London: that the City is indispensable, full of brilliant wealth creators, and must be pampered. This narrative is underpinned by the ubiquitous idea of 'national competitiveness' which has emerged in a particular and malign form in Britain and in many other countries: a form I call the Competitiveness Agenda. This narrative has pervaded all aspects of British political and economic life for decades.

The basic proposition that 'Britain must be competitive' is immensely appealing. But the Competitiveness Agenda which rests on this idea turns out to be one of the most confused economic narratives of all time. It has bamboozled many people in Britain, persuading them that they must deliver a constant stream of financial subsidies, deregulation and other gifts to the City, for fear

that all the bankers will run away to more ‘competitive’ places like Singapore or Geneva. These constant calls to support the ‘competitiveness’ of the City have been used as a cosh to bludgeon away opposition to corporate tax cuts, financial deregulation, or Britain’s soft-touch approach to policing dirty money and financial crime. It is the financial sector’s strongest ideological weapon, enabling it to capture Britain’s policymaking apparatus and large parts of the media. This capture is mostly a subtle, networked thing, backed up by dollops of well-aimed sponsorship as banks, insurance firms and hedge funds hurl funding at opinion-forming think tanks, throw banquets for visiting dignitaries, or organise drunken grouse-hunting expeditions for politicians or distinguished members of the metropolitan punditry. I call it ‘country capture’ because it goes far beyond the political system, penetrating deep into our economy, our culture and our society. This widely accepted story about the pressing need to preserve the City’s ‘competitiveness’ goes a long way towards explaining why our banks are too big to fail and our bankers too important to jail, why our hospitals aren’t getting funded, why your favourite local bookshop closed down, and why tax havens seem to be so hard to tackle.

The concept of ‘national competitiveness’ is a complex, tricky area, whose history and meaning I will explore throughout this book. Many people have been tricked into believing that Britain can be compared to a giant corporation, as if there is something called ‘UK PLC’ competing in the world marketplace, pitted against Germany or China or Luxembourg in a global race. These claims are nonsense, and this book will expose the deep fallacies and misunderstandings that form the basis of this pervasive narrative that underpins the finance curse.

The finance curse turns the dominant story decisively on its head. The purpose of having a ‘competitive’ financial sector, under the prevailing logic, is to keep the City as big and strong as possible. But if more finance is bad for Britain, then logically the City must *shrink* if we want our country to prosper. So pursuing this kind of ‘competitiveness’ is a fool’s errand: we should do exactly the opposite. Understand this, and democracy gets a wholesale new lease of life. If Britain and its financial sector don’t

need to ‘compete’ in a ‘global race’ on this stuff, then it can *unilaterally* tax and regulate its financial sector in the interests of society – and be better off overall. As I will show, this will generally tend to preserve the good stuff and get rid of the stuff that’s harming us. That is quite a prize.

And this book contains a tremendous piece of good news: that prize is well within our grasp.