

It's time to address the finance curse

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The global crash of 2008 kicked off a furious debate in the UK about whether or not the City of London is a real asset to the economy. There was huge anger about the multi-billion bail-out of failed banks and the size of bankers' bonuses. The men in dark suits working in posh buildings were engulfed in suspicion and resentment, with animosity toward them unleashed like never before.

The finance curriculum, which I teach, has nothing to say on these matters. There is no required discussion on industry ethics, nor on the social impact of finance. Some like [Satyajit Das](#), author of *Extreme Money*, argue that the finance academy operates in a parallel universe where theories are remote from practice — and often technical complexity and confusion are used to obscure and abuse.

There are urgent practical matters to discuss, like widespread basic financial illiteracy, the problems of personal debt, corporate greed and excess, tax avoidance and regulatory arbitrage, the questionable tax subsidy of borrowing by governments. Yet these things are not even in the syllabuses of finance courses, which are still obsessed with "maximising firm value". Individuals are assumed to be informed and rational in the economic theories, when in practice, they are far from it.

Unless we act now, we are running the risk of breeding a generation of highly qualified thieves. We urgently need to make people accountable for their crimes and spare no effort to catch professionals undermining and abusing the system. Five years on from the financial crisis, not much has changed. The anger has subsided, but the men in suits still prevail and the posh buildings are still as exotic — and more are coming up in the City and Docklands.

In a recent piece of outstanding research, Nicholas Shaxson and John Christensen analyse this "[Finance Curse](#)" (as they call it) in all its subtleties and complexities — and their findings are truly shocking.

Shaxson and Christensen argue that an over-sized financial sector is a huge disadvantage — socially, morally, politically, and most of all, economically. To them, the City of London is not the boon it is widely hailed to be by politicians and economists, but instead a huge curse. In fact, they actually demonstrate how finance results in “country capture”, a noose over the entire society, polity and economy of the country.

The “finance curse” as they describe it is analogous to the well-known “[resource curse](#)”, the tyranny that oil and other natural resources exert over [many economies](#). An abundance of resources has led to unemployment, inequality, corruption, authoritarianism and crowding out of other local sectors such as manufacturing or agriculture.

The “Finance Curse” uses evidence from tax haven islands like Jersey or Cyprus as test cases, showing the consequences of these countries’ overwhelming dependence on finance. In places like these, the “capture” of the government and the legal system is complete; there is extreme inequality and a lack of economic diversity, in turn leading to risk and instability.

This will be all too familiar to those of us who live in Britain. After all, we have been through a long period of industrial decline, inequality is increasing, unemployment remains high and welfare structures designed to aid the poorest and weakest remain under concerted attack. Meanwhile, the City is protected, subsidised and even encouraged. The ancient City of London Corporation (which some call the world’s largest [tax haven](#)) remains a staggeringly influential [lobbying force](#), and industry donors contribute a crucial chunk of the [Conservative Party’s funding](#).

Finance has also crowded many other sectors out of the recruitment and investment game. It has regularly sucked in top talent from universities; investment in research and development and manufacturing has been in decline in Britain for decades; lending to small and medium sized businesses has been very poor.

Meanwhile, on the pretext of supporting the country, the City has concentrated its efforts on tax and regulatory arbitrage, and has preserved itself and its profits through financial engineering, hiding real risks and sucking income and revenue from their products, combined with brazen fraud and mis-selling. We the public are subsidising our economic and moral collapse.

If a country is to sustain a large financial sector, it needs a healthy infrastructure of regulation, ethics, political stability and strong governance. The Finance Curse argues that our financial services industry undermines all these things routinely, but political capture means leaders routinely allow these institutions to break the law and avoid paying their fair share of taxes.

It is unbelievable that taxpayers were called on to bail out this industry, even as it tried to help other companies dodge their tax obligations. There is plenty of evidence to

show the [increase in white-collar crime](#) in Britain, especially in the finance sector, but the prosecution or even criminalisation of this is virtually absent — an example of how the state allows this deliberate hypocrisy to prevail through spin and regulatory failure.

An over-sized finance sector is essentially an over-sized debt and risk economy, because at its root, finance is about debt and borrowing. Common sense, on the other hand, dictates that making or creating something is ultimately more important than measuring or financing it. From a young age, I have been taught this — and that debt is bad while saving is good — so my own moral and ethical standpoint makes the thesis of the finance curse easy to accept.

Our time is short. The property bubble, fuelled by the finance industry, means that young people need well-paid jobs to get onto the property ladder, tempting them to cast their values aside in search of salaries that only finance can offer. This is my major worry for the future - talented brains will be used to undermine the system rather than reform it.

We are becoming morally captured by this nightmarish industry; in the process, we are losing the capacity to exercise our democratic powers and break this evil finance curse. We must act, now.