

The finance curse is evolving

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The [FT has reported that](#):

The role of the financial sector in the US, Japan and other advanced economies has grown too big, the International Monetary Fund has warned.

[In a new study](#) IMF economists say that emerging economies need to learn the lessons of the 2008 global financial crisis and avoid allowing their banking systems and financial markets to grow faster than regulators can keep up with.

This is the IMF echoing the Tax Justice Network, which has long argued that there is something that it calls the 'Finance Curse'. [As it says on its web site](#):

*It is widely recognised that [natural resources like oil can become a curse](#) rather than a blessing for some states that produce them. In our seminal publication *The Finance Curse*, we show how countries that host oversized financial centres can suffer rather similar fates — for many of the same reasons.*

Long-established research on the “[Resource Curse](#)” focuses on three main areas — all of which can be applied to a degree to finance-dependent economies.

First is the “Dutch Disease,” where large commodity export revenues push up local price levels, making other sectors uncompetitive and crowding them out. High salaries in the dominant sector also create a brain drain from other private sectors, from government, and from civil society, harming the economy, governance and society.

Oversized financial centres can do the same thing in the countries that host them. New research from the [IMF](#) and from the [Bank for International Settlements](#) cites these as key reasons why financial sector development, beyond a certain point, harms long term economic growth. Far from being the Geese laying golden eggs, as is routinely claimed — they can be Cuckoos in the nest.

I recommend the rest of the TJN article but my point in drawing attention to this is that we now have a new government that is showing no sign of awareness of this issue.

Indeed, there was much comment yesterday that the new Business Secretary is a City person who understands and can meet its needs. It was as if no other economic sector was of consequence.

The UK economy has already been hollowed out by finance. The evidence that a great deal of the economy exists to service the needs of finance when, very obviously, finance should exist to service the economy is now all too apparent and is precisely what both the IMF and the Tax Justice Network are drawing attention to.

The risk is not just that finance will continue to squeeze out other, more productive and socially useful activity within the economy, although there is no doubt that it will, but that its continued growth will impose risk of another major financial crisis that will create even greater stress than that of 2008 did. All the signs are that this government has no awareness of this.

To suggest that you worry does appear to be appropriate advice in the circumstances.