

ECONOMY AND FINANCE

TOO BIG TO FAIL: STILL A PROBLEM

A look at development finance

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Too-big-to-fail (TBTf) financial firms are still with us and are heavily implicated in a chronic financial drain of hundreds of billions of dollars a year from developing to developed countries.



Dominating developing countries in scale, scope and influence, they profit from but don't meet the needs of developing countries. They amplify problems of over-indebtedness, volatility, costly borrowing and reserve building, and they enable and facilitate illicit financial flows and tax evasion.



TBTf finance is headquartered and regulated in the global North. More than ten years after the crisis they are still our problem and working people in the Global North and in the Global South suffer as a result.



FOREWORD

When Finance Watch was created in 2011, in the aftermath of the Great Financial Crisis, there was a wide consensus that too-big-to-fail banks were the root cause of financial instability. We already knew at the time that the G20 financial reform agenda – decided at the Pittsburgh Summit in 2009 – would not solve all problems, but few would have thought that too-big-to-manage, too-complex-to-supervise and too-powerful-to-rein-in financial institutions would be seen as the solution to the world’s problems just a few years down the road.

And yet, less than ten years later European politicians would support mergers between the continent’s largest banks based on the belief that such giant champions would be a boost to the economy and support EU sovereignty. In the same vein, the European Union’s Sustainable Finance agenda relies on new capital markets giants – too-big-to-fail asset managers – as the cornerstone of financing sustainable growth on the continent and beyond.

I am delighted that my colleague Duncan Lindo was able to extend our analysis of the too-big-to-fail problem to the field of development finance. Together with our continued work on international and European financial reform processes, his analysis makes the case for an urgent debate on the structure of our global financial system. And for a civil society agenda to challenge the political power of too-big-to-fail finance as a threat to democracy, people and the planet.

Benoît Lallemand
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There is no doubt that TBTF-financial firms play a key role in development finance. In particular, their business models and profit motives drive financial processes that result in a chronic net outflow of financial resources from developing to developed countries. They contribute to financial instability and volatility in both developed and developing countries, using their position in the global financial system to avoid the worst effects of over-indebtedness, to the cost of both taxpayers in developed nations and to the majority in developing nations. So, what is there to be done about it?

What makes this paper so special is that it connects debates on development finance with debates on financial regulations and law-making at the core of capitalist states. As with any debate that aims to connect different spheres, this does not make the subject matter easier to analyse. A huge thanks hence goes to Duncan Lindo, who took up this analytical challenge. In doing so, he managed to write an analysis that grasps the topics complexity and still leaves the reader with clear messages and an urgent sense for a need for systemic change. I would also like to thank my colleague Elisabeth Bollrich, who was the key initiating force in this process and who continues to engage in it from Dar es Salaam. In addition, I am grateful to the participants of a small workshop on the paper in November 2021, particularly Elsa Clara Massoc, Farwa Sial, Stefano Prato, Bodo Ellmers and Stephanie Blankenburg, who all shared their utterly insightful views. Last but not least, a big thanks to Benoit Lallemand and Samuel Bossart at Finance Watch for their partnership in this important endeavour. As with any good analysis, this paper leaves one with more questions than answers – we at Friedrich-Ebert-Stiftung already look forward to tackling them in the future.

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INTRODUCTION

Researchers have long identified various chronic resource outflows from developing countries to the capitalist core. Over centuries this has taken many forms but has often involved the financial system, perhaps never more so than in these financial times. In 2020 UNCTAD attempted to quantify the chronic net financial outflow from developing to developed nations and calculated outflows of almost one trillion US dollars per year before the 2008 crisis, and around ten trillion US dollars between 2010 and 2017. While developing nations have financial relationships with governments and other public and quasi-public multilateral institutions, they engage in increasing amounts of financial business with the private financial sector. To better understand this financial drain we must therefore examine the relation between developing countries and the international financial system that they must deal with.

In the early 21st century, dealing with the private financial system unavoidably entails doing business with giant, oligopolistic, transnational, financial firms – many of which are many times larger than individual national economies. These giant firms together straddle the globe, dominating the financial systems of the capitalist core and of developing countries. They operate a similar business model, and often collaborate. Taken together, they dwarf the economies of all low and middle income countries combined. For example, the combined total assets of just the largest five banks in the world (excluding Chinese banks) are greater than the combined market capitalisation of all low and middle income countries (excluding China); as are the combined assets under management (AuM) of the three largest asset managers.¹ The threat of their failure in the global financial crisis earned them the label too-big-to-fail, a label we use in this discussion paper, even as we discuss the broader dangers these firms pose.

Their size, both individually and as a group, gives them enormous market power and affords them an advantage in their dealings with developing countries, and, what's more, allows them to influence development finance »common sense« by exerting various forms of power over policy makers in the capitalist core, including over governments and MFIs. In doing so, they encourage forms of finance that boost their profits at the expense of developing countries thus contributing to net financial resource outflow. For example, recent years have seen a steady push by MFIs, led by the International Monetary Fund (IMF) and World Bank, to increase market-based development finance. This has been exacerbated during the COVID crisis as countries in the capitalist core have turned inwards, cutting aid and turning attention away from developing countries.

¹ Note that we put China in a separate category and exclude it from this analysis. The largest five banks (excluding Chinese banks) are Mitsubishi UFJ Financial Group, HSBC, JPMorgan Chase, Bank of America and BNP Paribas. The three largest asset managers are BlackRock, Vanguard Group and State Street Global. More details can be found in Table 2 and Appendix 1.

This withdrawal has presented more opportunities for private financial firms, above all to allow giant financial firms an opportunity to increase their presence in development finance and to push for even more market-based external development finance – a path which is associated with higher costs for developing countries and higher profits for financial giants based in the capitalist core.

To better understand these processes this paper asks how are the giant, oligopolistic, transnational financial firms of the capitalist core implicated in the chronic net financial resource outflow from low and middle income countries to high income countries? To answer this question we first set out at a high level what we are, and are not, trying to achieve in this paper and our approach to the research. We then briefly look at the scale of net resource financial flow before turning to the giant financial firms themselves, first, laying out the sheer size, especially compared to low and middle income countries, and, second, outlining their business model and the ways it can impact on developing countries in general. Having set the scene in this way, the paper moves to the more detailed task of highlighting various channels of financial exploitation of developing countries and analysing how giant, oligopolistic transnational financial firms are implicated in these channels, often amplifying and encouraging existing processes.

SETTING THE SCENE

The conventional wisdom in development finance, not least among MFIs such as the World Bank and IMF, is that economic development in developing countries depends overwhelmingly on the conditions and practices inside each country.² Analysis and policy prescriptions, typically authored by those based in the developed world, are correspondingly aimed at changing those practices. However, a clear-eyed look at the relations between countries, and more particularly between the countries of the capitalist core and developing countries shows that developed countries, from slavery³ through the colonial period to today, have long and consistently »underdeveloped«⁴ developing countries, resulting in a resource outflow from developing countries to those in the capitalist core.⁵ Seen in this light it is less the practices in and of developing countries that deserve our attention when trying to address the lack of »catch-up« but the practices of firms and states in the capitalist core in their relations with developing countries. In

² Hickel et al. 2021.

³ Williams 1964.

⁴ Rodney 2018.

⁵ »The general logic of colonisation was to integrate the global South into the Europe-centered world economy on unequal terms. The South (the »periphery«) was made to serve as a source of cheap labour and raw materials for the North (the »core«), and as a captive market for Northern manufactured goods ... Beginning in the 1950s, economists and historians associated with dependency theory and world-systems theory argued that this relationship continues to define the global economy in the post-colonial era...« (references omitted), Hickel et al. 2021: 1031.

what follows the focus is on firms of the capitalist core and their relations with the Global South.

At a slightly more concrete level of abstraction, underdevelopment and exploitation has taken, and continues to take, many forms such as forced expropriation, uneven trade in commodities and, the focus of this paper, via finance.⁶ Economic development (or its absence) in low and middle income countries is a complex and many-sided process. One possible abstraction to be made to make some sense of this complexity is to develop the twin categories of the productive economy and finance. Development involves relations in both spheres, but they also interact in various ways with determinations flowing in both directions. On the one hand, the structure of the productive economy to some extent determines financial activities, but importantly for this paper, the choices of financial firms, not least through deciding which projects to fund and which not to fund, also shape the structure of the productive economy. Without downplaying the importance of non-financial activities, we focus on finance in this paper, as a site of exploitation itself, and, to a lesser extent, on its ability to shape the real economy.

More concretely still, governments and firms in developing countries can be considered to engage in financial transactions with three categories of counterparts: other governments (sometimes labelled bilateral relations); MFIs such as the World Bank or regional development banks such as the African Development Bank; and private institutions, here private financial firms. Governments of the capitalist core and multilateral development institutions play an important role both as counterparts in their own right and, importantly, in facilitating private finance. Increasingly, however, private finance is taking a larger share, even more so during the Covid pandemic.⁷ The focus in this paper is on relations with private finance – although the ways in which governments, regulators, credit agencies and so on facilitate private financial relations in this domain certainly merits further study.

Finally, within the domain of private finance there remains a wide variety of firms, from giant banks and asset managers to smaller vulture funds, and even firms not previously thought of as financial. In these financialised times many firms formerly or formally classified as non-financial have increased their financial activities and changed their outlook to become more financialised, including many of the giant multinational corporations (MNCs) at the heart of global production networks (GPNs).⁸ Similarly, many of the giant technology companies which are coming to dominate stock market indices and, in different ways, our everyday lived experience have also potential to become big financial players. Nevertheless, our focus in this paper is

restricted to more traditional definitions of financial firms – which we understand to be in a different category from financialised non-financial firms. One important difference is that financial firms, most especially banks, provide much of the global financial infrastructure that facilitates and enables financial activities by other firms, from bank credit money and payment systems to ownership of clearing houses to providing liquidity in markets. We are also not focusing on smaller financial firms from the capitalist core that are active in developing countries, in part because we find the sheer scale of TBTF firms is an important element in their domination, and in part because smaller firms also often rely on infrastructure from larger firms, e.g. banks provide prime brokerage services to hedge funds, custody and settlement to vulture funds and so on. As with all the »narrowing down« discussed in this section, this focus is not to deny the importance of other financial and financialised actors, but to focus analysis on one thing at a time! Appendix 1 lists many of the world's largest financial firms, categorised as banks, asset managers, insurance firms and pension funds, although we note that this categorisation is perhaps more for illustration than analytical purposes as there is much interaction and cross-investing between these categories.

In the aftermath of the 2008 financial crisis financial regulators of developed countries vowed to get rid of so-called Systemically Important Financial Institutions (SIFIs). The FSB was tasked with the job.⁹ Over ten years later it is clear that it has failed, concentration among a relatively small number of giants at the heart of the global financial system has only increased. In the aftermath of 2008 the key feature of these firms that troubled regulators and governments was the impact on core capitalist economies should any of these firms fail – governments wanted to give the impression that they would never bail out financial firms at the taxpayer's expense again. The focus therefore was on »ending too-big-to-fail«¹⁰, as the FSB called it.¹¹ The danger these giants pose to economies and societies across the world is still with us and, as the analysis below makes clear, it is not only the threat of their failure that makes these firms dangerous. Their qualitatively different scale compared to other financial institutions and even to governments, the similarity of their business models, their transnational and often global reach, their focus on market-based finance, all, in different ways, allow them to profit at the expense of working people everywhere. Despite these myriad dangers the term »too-big-to-fail« has become shorthand for these global oligopolistic transnational financial firms and we use it in the rest of this paper even as we analyse a broader

⁶ Ndikumana 2017.

⁷ UNCTAD 2020b.

⁸ Known as the financialisation of non-financial firms. See, for example, Lapavistas and Powell 2013; Kaltenbrunner 2017.

⁹ The FSB was established in 2009 by the G20, while its predecessor the Financial Stability Forum was founded in 1999 by the G7. <https://www.fsb.org/about/history-of-the-fsb/>.

¹⁰ <https://www.fsb.org/work-of-the-fsb/market-and-institutional-resilience/post-2008-financial-crisis-reforms/ending-too-big-to-fail/>.

¹¹ The first reference to too-big-to-fail is thought to date to 1984: »[I]n September 1984 the Comptroller of the Currency testified before Congress that some banks were simply »too big to fail« and that for those banks total deposit insurance would be provided.« (O'Hara and Shaw 1990: 1587).

range of problems they pose. The term also serves to remind us that the continued domination of these firms is a problem for the 99 per cent in the capitalist core, as well as for those in developing countries.

In what follows we highlight a number of channels of financial exploitation of developing countries by those of the capitalist core that have been exposed by academic and civil society researchers. We attempt to explain and, where possible, quantify these channels before going on to analyse the role of TBTF financial firms in these processes. We do not claim that TBTF financial firms are the sole cause of these channels of exploitation and, mainly for this reason, do not try to quantify their contribution. However, we do try to analyse the ways in which these firms encourage certain types of finance which amplify financial exploitation, and in which TBTF firms have become increasingly important. Put another way, if we take the counterfactual, we contend that development finance simply would not look the same if it was dominated by, say, governments, by small financial firms, by domestic finance in developing countries, or by other types of firms or actors.

Net Financial Resource Outflow

Various attempts have been made to measure resource outflow from developing to developed nations over the years. Researchers investigating uneven exchange using various methodologies, have found the annual drain has risen from around 150 billion US dollars in the mid-1960s to 2.5-2.8 trillion US dollars per year (in 2011 USD) in more recent times. One estimate calculated that the South lost 27.7 trillion US dollars between 1960 and 1998. A study from 2021 estimates that in 2017 »drain through unequal exchange amounted to 2.2 trillion US dollars ... enough to end extreme poverty fifteen times over«. ¹² Elsewhere Patnaik estimated the drain from India to the UK between 1765 and 1938 to be around 9.2 trillion pounds sterling. ¹³ As with all such estimates, these figures certainly underestimate the quantity and wider harm of this drain.

Turning to the domain of finance, UNCTAD states: »more financial resources have gone from developing to developed countries than have been returned« – part of the »topsy turvy« nature of global finance in the early 21st century. ¹⁴ UNCTAD defines the net transfer of financial resources as »the difference between net capital inflows and net income payments to foreign capital, including net changes in international reserves«. ¹⁵ Growing throughout the early 2000s, this transfer of financial resources reached 931 billion US dollars in 2008, before decreasing slightly, then increasing again to almost 1 trillion US dollars in 2012 (977 billion US dollars). Although the gap closed slightly with the easing of the crisis since 2012, in part due to a deple-

tion of developing country reserves, it remains around half a trillion US dollars per year in 2016 and turned for the worse in 2017. Overall, the data suggests that 2000-2017 saw a cumulative outflow of financial resources from 135 developing nations to developed nations of over 10 trillion US dollars. And this is before illicit flows, which we discuss below, and which are estimated to add hundreds of billions of US dollars a year to this outflow.

TBTF-BASED FINANCE

Global Oligopoly

Global trade and production in 2020 has changed dramatically from the model of the mid-twentieth century. The model of producing finished goods in one country has been replaced by large, complex production networks spanning the entire planet, where production of components and their assembly is spread throughout the network. These new GPNs are typically managed/dominated by huge MNCs and have important, and often negative, consequences for developing countries. For example, production has become increasingly standardised which, in combination with sophisticated production management, means production can be more easily switched away from one country to another, putting constant pressure on wages of workers in developing countries and on governments to provide incentives, at taxpayers' cost, for production to stay. ¹⁶

Importantly this global turn in production has been accompanied by a similar turn in finance. Large, complex GPNs require commensurate financing and have been grown in tandem with a large, complex, and globalised financial system, each mutually reinforcing the other. The result is that the previous international system of finance, with some nations characterised as bank-based and others as market-based, has to a large extent been replaced with a system dominated by the largest financial firms in what we call TBTF-based finance.

Crucially, developing nations are obliged to plug into this system. As UNCTAD stated in 2020: »Over the past decade, developing countries have witnessed a rapid and often premature integration into heavily underregulated international financial markets, including the so-called shadow-banking sectors, estimated to be in control of around half of the world's financial assets.« ¹⁷ As researchers have noted, developing countries do so from a position of subordination in what is known as »subordinated financialisation« and this subordinated entry position not only disadvantages developing countries but spreads financialisation further into their economies. ¹⁸ For example, scholars

¹² Hickel et al. 2021: 1034.

¹³ Patnaik 2018.

¹⁴ UNCTAD 2020a.

¹⁵ Ibid.

¹⁶ Huws 2014; Peck and Tickell 1994.

¹⁷ UNCTAD 2020b: 3.

¹⁸ See Powell 2013 and Bonizzi, Kaltenbrunner and Powell 2019 for more on subordinated financialisation.

have noted that increasingly financialised non-financial corporations and financial firms in developing countries have tended to be associated with increased household indebtedness.¹⁹ Integration of developing country actors into the global financial system has also exposed them to global financial turbulence (as we explore in more detail below).

Thus far, however, scholars of subordinated financialisation have paid less attention to the global system's domination by too-big-to-fail financial firms. The global financial system into which developing countries are increasingly pushed to integrate resembles a hub and spoke arrangement, with a globalised hub of giant financial firms while smaller financial firms, governments, and others, from developing countries and from the capitalist core, are obliged to transact. This places those outside the global hub of the system at a considerable disadvantage, not only are the TBTF financial firms firmly embedded, with outsized influence, in global rule-making and standard-setting processes, but most fundamentally they operate from a position of financial strength, more at home with the complex financial instruments they dream up and, above all, qualitatively larger with deeper pockets and greater geographical reach than those they transact with.

Size of TBTF-based Finance

A few examples of the scale of TBTF financial firms and financial systems in low and middle income countries give some idea of the mismatch of scales between developing countries and the financial giants of the capitalist core. The market capitalisation for middle income countries (excluding China) in 2020 was just under 10 trillion US dollars. Their external debt stock was just over 6 trillion US dollars. That is spread, unevenly, over 109 countries ranging from Albania to Zimbabwe. If we also exclude the relative giants of Brazil, Russia, India & South Africa the totals fall to 4.4 trillion US dollars and 4.5 trillion US dollars respectively.^{20 21} In contrast, individual TBTF financial firms dwarf individual developing nations and, even allowing for differing measures of size, the very largest have achieved a scale similar to all middle and low income countries combined. Thus, even excluding the Chinese banks, in 2019 six TBTF banks each had total assets of between 2 trillion and 3 trillion US dollars. Blackrock, the world's largest asset manager, had AuM of 7.4 trillion US dollars and Vanguard, the second largest, 6.2 trillion US dollars. The largest five insurance firms and pension funds had assets averaging just less than 1 trillion each (0.9 trillion US dollars and 0.8 trillion US dollars respectively). Aggregating just the largest five firms from each of the four categories used below (banks, asset managers, insurance firms, pension funds) gives combined assets approaching 50 trillion US dollars – many times more than the total financial system of all low and middle income countries combined. Against just one of the largest 80-100 TBTF financial firms, a single developing country stands no chance.

Table 1

Selected Developing Country Financial Indicators

	Middle Income (excluding China) (trillion US dollars) 109 countries	Middle Income (excluding BRICS) (trillion US dollars) 105 countries	Low Income 27 countries
External debt stock	6.2	4.4	0.2
Market capitalisation of listed domestic companies (current US dollars (trillions))	9.8	4.5	-
GDP (current US dollars (trillions))	15.9	9.9	0.5

¹⁹ Painceira 2011.

²⁰ <https://data.worldbank.org/?locations=XM-XP>.

²¹ Note that we exclude China and Chinese financial institutions from this analysis. Not only does China not fit the typical profile of a developing country, it also contains some of the world's largest financial institutions, including the four largest banks in the world (see Appendix 1). The vast size of China also means that it contains many instances of uneven and combined development itself, including highly developed, developing and underdeveloped geographies, sectors and other elements.

Table 2

Selected TBTF Financial Firm Indicators

Indicator	Amounts (trillion US dollars)	
Largest 100 banks globally – total assets	94.8	
Largest 25 banks globally ²² – total assets		53.8
average size of largest 25	2.2	
average size of largest 5 (excl. China)	2.6	
Largest 20 asset managers (AuM) ²³		44.9
average size of largest 20	2.2	
average size of largest 5	4.5	
Largest 25 insurance firms – assets ²⁴		14.6
average size of largest 25	0.6	
average size of largest 5	0.9	
Largest 20 pension funds (AuM) ²⁵		7.9
average size of largest 20	0.4	
average size of largest 5	0.7	

Business Model of TBTF-based Finance

The TBTF business model relies, unsurprisingly, on being big. The financial system can be viewed as consisting of two essential (necessarily simplified) categories: banks and institutional investors. Banks provide bank credit money, credit and market infrastructure, including market making, put alternatively they may also be thought to provide liquidity. They are faced by institutional investors from pensions and insurance funds to the newly emerged giant asset managers who exist mainly to hold and trade financial instruments (who perhaps use liquidity). In TBTF-based finance both categories have come to be dominated by giant transnational, often global, firms. For all these firms, be they the »flow factories« of investment banks or the giant institutional investors, large deal size is imperative – small deals simply do not generate enough revenue to justify the due diligence and processing costs. TBTF-based finance results in big deal size.

For similar reasons, and above all because global finance revolves around financial markets, TBTF-based finance exerts incredible pressure to standardise financial instruments,

deals and markets. While so-called boring banks can make bespoke loans, markets prefer standardisation. Mainstream economics generally assumes markets, including financial markets, pop up out of nowhere but in fact they are made by market participants and by states providing infrastructure, instruments, rules and so on. Market participants prefer standard instruments that save costs of analysis and which allows instruments, and, importantly, their prices, to be more easily compared thus increasing their tradability (as economic sociologists, anthropologists and political economists have long noted²⁶). Firms have engaged in a variety of techniques to standardise finance from adopting English law (or the law of other core capitalist nations), to standardised payment dates and techniques, instrument design, the use of a small number of credit rating agencies as proxy for bespoke credit analysis and so on. An important further element is the pressure to issue debt in external, »hard« currencies, above all in US dollars. So, for example, two US dollar denominated bonds issued by hydro-electricity projects, with similar duration, coupon, rating, legal covenants and so on, but in different developing countries, can be priced with reference to each other making them easier to trade in financial markets.

In short, TBTF financial firms aim to deliver very large, standardised, neatly packaged financial instruments in global financial markets where they can be held in large, standardised portfolios (e.g. by asset managers) or where their large, standardised nature increases their liquidity (at least in good times) for those interested profiting from more rapid trading (e.g. for hedge funds).

Financial instruments geared to the business models and profit motives of TBTF financial firms are, however, not always (read rarely!) to the benefit of developing nations that need to plug into this financial system. For example, issuing financial instruments under domestic law would allow developing countries more political control over their own finances. The need to buy credit ratings from the largest, unregulated, rating agencies in practice means succumbing to the dominant market-based and neo-liberal paradigm, often implying austerity and other policies harmful to development. Issuing in external, hard currencies, piles on pressure for developing countries to maintain the strength of their currencies, earn hard currency through exports, and increases their exposure to financial volatility (at a cost to exports and requiring large external reserves (see below)).

A particularly important example of standardised financial instruments is public-private partnerships (PPPs). PPPs typically involve a long-term contract between the state and a private firm such that tasks that were typically previously carried out by the state are carried out by private firms. Instead of the state borrowing to build infrastructure, pri-

²² <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/the-world-s-100-largest-banks-2020-57854079>.

²³ https://www.thinkingaheadinstitute.org/content/uploads/2020/11/TAI_PI500_2020.pdf.

²⁴ http://www.ambest.com/review/displaychart.aspx?Record_Code=274407.

²⁵ <https://www.thinkingaheadinstitute.org/research-papers/the-worlds-largest-pension-funds-2020/>.

²⁶ See, for example, the work of Carruthers and Stinchcombe 1999; Donald MacKenzie e.g. MacKenzie 2006, 2007; Knorr-Cetina and Preda 2005; Beunza and Stark 2004; Lindo 2018; etc. Note that Donald MacKenzie is an individual member of Finance Watch.

vate firms finance and build it and are paid over time from the state and/or from user fees. For free market theorists, they offer the mythical efficiency of the market, both for the tasks itself and for the private financing. In reality, they have been shown time and again, in developed and developing countries, to have many disadvantages and above all to be more expensive and riskier for governments.²⁷ Even the European Bank for Reconstruction and Development (EBRD) has said they are »pretty on paper, poor in practice« (reflecting, among other things, the poor quality of neoclassical economic theory), yet has continued to promote them (reflecting, among other things, the staggering and continued dominance of neoclassical economic theory).²⁸ For governments, a key reason given to engage in PPP is that it appears to reduce government debt but, as Eurodad points out, the debt is in fact simply hidden – private firms almost always have higher borrowing costs than the state and this increased cost together with a profit for private firms must always be eventually paid by users or taxpayers.

For the TBTF financial firms, however, they offer numerous advantages. On the one hand, they are paid to arrange PPP financing, often involving a range of financial instruments. At the same time, the financial structures of PPPs look remarkably similar the world over from Brussels and Berlin to Bengaluru and Brasilia. For TBTF firms they offer a standardised and well-understood project that is relatively easy to place in global financial markets. And there is a further advantage – private firms often demand that governments »de-risk« PPP projects.²⁹ This can be written into the legal terms of contracts e.g. by guaranteeing revenue streams on projects, offering cheap options to buy back failing projects and so on. In addition, implicitly or explicitly states are always the last guarantor of such projects – private firms can fail and walk away, while governments are left with the infrastructure that is »fixed« geographically and with responsibilities to continue to provide the services involved, be it housing, roads, energy provision or whatever. Very often this provisioning is too-important-to-fail and governments must attempt to assure provision. In all cases this implicit and explicit risk-bearing by governments further increases the standardised nature and attractiveness of PPP financing for TBTF financial firms, whether they arrange the finance or hold it in their giant portfolios.

A further disadvantage of the need for large standardised financial instruments is its tendency to translate into large, standardised projects, for example large infrastructure and energy projects. These are not always well suited to the development needs of developing nations and are often wasteful. In addition, they have historically not been ecologically sound and form part of the way in which developed nations have outsourced their ecological footprint to

developing nations. The dependency of many developing countries on primary exports offers an important example of large scale, well understood projects which can enable easy-to-sell financial instruments that not only hold back development but ravage the environment. Capitalist development requires long-term patient capital, with a large element of planning as history has shown in the case of Japan, South Korea and now China, amongst the only developing nations to have ever experienced consistent, substantial growth over several decades. Moreover, it requires a range of scales of projects tailored to the specific needs of each country. These needs are unlikely to be met by TBTF-based finance devising projects for large, standardised financial instruments to deliver to global financial markets.

CHANNELS OF FINANCIAL RESOURCE OUTFLOW AND THE ROLE OF TBTF FINANCIAL FIRMS.

Having sketched the anatomy of the global system of TBTF-based finance, and having already seen some of the disadvantages it offers to developing countries, we now explore in more detail some ways in which TBTF-based finance is amplifying and reinforcing existing channels of financial appropriation from developing countries.

Debt and Debt Forgiveness

One of the major elements contributing to the financial flows from developing to developed countries is the huge mountain of debt which developing countries owe to developed ones, a mountain which has grown rapidly in recent years, and in particular since 2008. This debt usually entails the payment of fees to external financial institutions for its arrangement and issuance and subsequently an outflow of interest payments. While in theory this credit invests in projects that earn more than the interest due, this is often not the case for a number of reasons. First, we have seen that unequal exchange in trade has cost developing countries many trillions of dollars over the years. Further, as we now explore, the form and cost of debt owed to governments and above all firms in the capitalist core is often problematic. And, third, as we explore in the next section, proceeds are often used to build foreign exchange reserves.

A first distinction must be made between external debt and the development of an adapted and suitable financial system within a country itself. Neoclassical development theory insists that external financing is necessary for development. Nevertheless the financial systems of the core capitalist countries developed, for the most part, internally in conjunction with the development of the wider economy. Banks and other financial institutions develop practices which allow them to collect hoards which naturally fall idle during capitalist circuits e.g. between receiving a payment for previous goods sold and paying for new supplies. They then put these idle hoards back into the economy, usually

²⁷ See, for example, Eurodad 2020 for a recent list of civil society organisation and academic scholarship pointing out the pitfalls of PPP in practice.

²⁸ EBRD 2013, cited in Eurodad 2020.

²⁹ Gabor 2018, 2020.

as credit, to help others speed up their circuits of production, e.g. to pay for supplies before payment for final goods has arrived.³⁰ What's more, the extension of credit is a social art as much as a science and should be embedded in local cultures and societies and tailored to their specific needs.

Recent years have seen an explosion of external debt in the Global South, quadrupling between 2000 and 2008.³¹ Too much emphasis on external debt, at the cost of developing a local financial system, disadvantages developing countries in numerous ways, but most generally this is because it is the motives of the external lenders which determine which projects receive investment and credit and which form this takes, and there is no reason for these to be aligned with the development of the wellbeing of the local population.

Who are these external lenders and how do their characteristics impact on developing countries? Three categories can be established: bilateral debt (owed directly to governments), multilateral debt (owed to MFIs) and private debt (owed to private financial firms).

Multilateral and bilateral debt usually comes with explicit, neoliberal conditionality, typically insisting on even more opening to external firms, to external finance and imposing austerity, internal devaluation and so on. Multilateral debt can be thought to hold a hybrid position: while it appears to be public, it is funded through international financial markets. The backing of multiple states grant this borrowing the highest credit ratings and hence makes it very cheap. But the flipside is that »market discipline« seeps through the MFIs and contaminates their lending to developing nations. This can be seen in the neoliberal conditionality of the Washington Consensus and post-Washington Consensus policies, above all forcing market-based solutions and internal devaluation through austerity. As we explore below, fear of »the market« prevented MFIs from participating in a recent COVID-related debt repayment holiday.

Private debt, on the other hand, is overwhelmingly issued, distributed and held by TBTF financial firms be they investment banks or institutional investors and is typically more expensive than bilateral and multilateral debt. Recent years, particularly since the crisis of 2008, have seen a rise in private debt relative to the other forms of debt, especially in relation to sovereign bonds. According to UNCTAD, »domestic bond markets were increasingly penetrated by non-resident investors and sovereign external debt held to a much larger extent than in previous episodes of developing country debt distress by private rather than official creditors«.³² While private debt has less explicit conditionality, in effect, it comes with conditionality imposed via

credit rating agencies, similar to multilateral debt, such that a good rating can only be achieved in the context of a neoliberal economic model.

More generally when TBTF financial firms dominate it is their business model which largely determines which projects are funded and in which form. As we have seen, this means large, standardised financing, often market-based, and not often well aligned with improving welfare in the country concerned. First, such financing can influence the shape of the wider economy in the developing country, tending to favour large, standardised projects that are easy for international investors to understand and easy to place in institutional portfolios. This also often means denominating debt in so-called hard currencies, exposing developing countries to external volatility, and reshaping the wider economy to produce cash crops for export rather than focussing on the needs of the local society. It often also means a tendency for market-based finance as this is where TBTF finance is at its strongest and can make most profit. For developing countries, however, it is often more costly than other forms of external finance (e.g. bilateral loans from other governments) and, as we have seen, exposes them to increased, external volatility.

The major problem of over-indebtedness or debt overhang occurs when developing countries do not generate enough income to repay interest and repayment of principal³³ and therefore borrow to make repayments, thus increasing the overall debt and worsening the problem. What's more, the necessity to pay lenders reduces the »fiscal space« that developing countries have to develop their societies and economies. To take just one example among very many, in 2020 the Jubilee Debt Campaign showed that 64 countries spend more on debt payments than on health.³⁴

At some point the only way out of this cul-de-sac is a debt reduction, which can occur on a spectrum from debt crisis with disorderly default, through restructuring to payment holidays or even debt forgiveness and debt jubilees. Once again, however, the current international financial architecture often hands an advantage to private and TBTF financial firms, who can both pressure to change rules in their favour and use economic, political and legal power to play the rules. As UNCTAD notes, »the shift from bank lending to bond financing has coincided with a general strengthening of creditor rights«³⁵ – not least because TBTF firms are in a very strong bargaining position.

Debt reductions, particularly well-targeted debt forgiveness, can play an important part in creating fiscal space, in the short or even longer term. However, the underlying problem is more structural, as the short-lived relief of previous debt forgiveness episodes has shown. Anne Pettifor

³⁰ Lapavitsas 2000; Hilferding 1910.

³¹ Toussaint and Rivié 2020a, 2020b.

³² UNCTAD 2020b.

³³ The World Bank is reluctant to include interest payments in its calculations of financial flows, for fear of losing its privileged creditor status (CADTM 2021).

³⁴ Jubilee Debt Campaign 2020a.

³⁵ UNCTAD 2020b: 10.

writes that the Jubilee 2000 debt relief campaign could be considered a success »but it did little to alleviate the structural problem facing poor countries: the absence of sound, publicly financed monetary systems for generating finance at a domestic level. Instead, most low-income countries have to depend on finance from elsewhere. So, dollar, yen, sterling or euro-based borrowing – increasingly from private capital markets – is the norm. And so is the inevitable rise in foreign debt burdens – a form of modern colonialism.«³⁶ As long as local financial systems are forced to plug into the TBTF-based global financial system, home-grown financial capacity will not develop and solutions will be tailored to the business model and profit motives of TBTF financial firms and not the development needs of developing countries.

The spectre of TBTF firm failure and the chaos it can cause also raises its head when examining the relations between bilateral, multilateral and private debt. The power of TBTF financial firms (structural and instrumental) allows them to manipulate this triad of lenders to their benefit, shaping the global financial system in ways which very often favour them. When developing countries' debts become unsustainable MFIs often step in with rescue packages (usually in the form of more lending with heavy conditionality). This multilateral lending explicitly aims to avoid default by the country, and to ensure that private creditors are repaid. The rationale given is usually that developing nations will be »locked out« of markets if they default, although experience shows that countries often have a relatively quick return to market-based finance. TBTF firms are in a powerful position: »They are convinced that as private creditors, they will be paid back first because loans are granted by the IMF and other institutions on condition that the money is used first to pay private creditors.«³⁷ In a recent example, fear of »the market« and rating agencies was explicitly given as a reason by multilateral lenders in 2020 for not participating in COVID-19 related payment holidays for overindebted nations.³⁸ The result was that a payment by bilateral lenders effectively ensured TBTF financial firms continued to get paid, either directly (to the tune of 11 billion US dollars³⁹) or via multilateral lender's debt issuance. At the same time, as TBTF firms, they are confident that, should they make losses and get into trouble, their own governments will be obliged to bail them out. Their position is further improved because of the large and costly foreign exchange reserves we discuss below, which go some way to shielding them from market turmoil in the countries in question. In this way, the higher yielding securities of the Global South, especially in these times of ultra-low, if not negative interest rates, offer TBTF firms an excellent risk/return profile. As we now explore, this is further enhanced because an important counterpart to the indebt-

edness of developing countries is the build-up of foreign exchange reserves as a defence against market volatility.

Stability and Reserve Accumulation

The rationale for expensive borrowing costs of developing countries is the apparent increased riskiness of their debt. Yet much of this risk stems from their subordinate position vis-à-vis the Global North. The relationship between the TBTF-based global financial system and developing countries has instability built into it. Two factors in particular contribute to this instability from the perspective of developing nations. First, TBTF-based finance tends to encourage market-based finance,⁴⁰ as it suits the TBTF-finance business model. Market-based finance has been clearly demonstrated to be more volatile and more costly than more patient capital investments such as bank-based, long-term lending and foreign direct investment. Furthermore, there is a »vicious circle« effect at play because not only does TBTF-based finance encourage market-based finance, but more market-based finance encourages TBTF firms, as it plays to their strengths vis-à-vis other financial firms and forms of finance.

Second, as we have seen, TBTF firms are typically many times larger than developing economies. This means that even relatively small portfolio adjustments by TBTF firms can correspond to enormous outflows from developing nations' perspective. This has been amplified by the recent increasing importance of index construction for passive investment meaning that small changes in index rules can have an outsized impact on emerging markets.⁴¹ As even the IMF note, inclusion in indices can be a double-edged sword, meaning fresh inflows, but increasing outflow risk »because benchmark-driven investments may *increase the importance of external factors at the expense of domestic factors*, raising the risks of outflows unrelated to recipient country fundamentals«⁴² (emphasis added). In addition, inclusion in indices, which can lead to fresh external investment, is often conditional on compliance with market-based norms, for example countries with capital controls are often excluded. As the author of a recent report on the subject states: »Emerging markets are little ships floating on a sea of risk. If the global weather environment is too bad, then you can sink the ship.«⁴³

Furthermore, as 2008 showed clearly, TBTF-based finance also increases financial instability in the capitalist core. As Finance Watch and academic research have repeatedly pointed out, this costs the majority of people, the 99 percent, in core capitalist countries.⁴⁴ Repeated financial crises have also shown that instability in the core usually results

³⁶ Pettifor 2019.

³⁷ Toussaint & Rivière 2020a, 2020b.

³⁸ Malpass 2020.

³⁹ Jubilee Debt Campaign 2020b.

⁴⁰ Finance Watch 2012.

⁴¹ Fichtner and Petry 2021.

⁴² Arslanalp et al. 2020.

⁴³ Johnson 2021.

⁴⁴ Finance Watch's work on TBTF available here: <https://www.finance-watch.org/?s=Too+big+to+fail>.

in financial firms retreating from peripheral markets and even retreating behind national borders (as was the case in the Eurozone crisis); thus creating a further, external, source of instability for developing countries.

The inherent instability of TBTF-based finance therefore increases the long-standing problems of risk of capital flight and sudden stops for developing countries – a risk that has been exacerbated by the capitalist core's insistence on market-based financial rules and regulations. Under these rules so-called »anti-market« defences against capital flight and sudden stops, above all capital controls, have been strongly »discouraged«. The remaining defence for developing countries in such a world has been to build huge foreign exchange reserves as a means of »self-insurance«. ⁴⁵ This means buying and holding large amounts of hard currency and safe and liquid financial instruments, such as US Treasuries and government debt of other core capitalist countries. In other words developing countries are lending to developed ones. »The outcome [of the rise in reserves] has been *net flows of capital from developing to developed countries*. The social costs of this aspect of financialisation for developing countries have been very large, while developed countries, and especially the USA, have drawn considerable benefits.« ⁴⁶ (emphasis added) In the aftermath of the financial crisis of 2007/8 it is estimated that these reserves come with a social cost »as high as 1.8 per cent of GDP for the developing world, and could be higher than three per cent of GDP for China.« ⁴⁷ First, this is a stock of funds that could otherwise be used for investment in developing countries e.g. in health and education systems. What's more, researchers have found that building up such reserves promotes other forms of undesirable financialisation in the economy. ⁴⁸

Second, developing countries typically need to buy safe assets, with low credit risk and high liquidity, as they try to ensure their assets remain sellable without a fall in value in the event of problems. Such assets typically have very low yields, but as we have seen the counterpart to this low yielding asset is high cost borrowing by developing countries. The result is a financial position which costs developing countries each year, ⁴⁹ money which flows from developing to developed nations and into the portfolios of those holding the opposite position. Core capitalist financial institutions, above all TBTF institutions, benefit from the other side of this trade, either from arranging deals and making markets or from holding the position and earning positive carry. TBTF financial firms have lower borrowing costs in part because of the unofficial but implicit government guarantee that their TBTF-status grants them, ⁵⁰ meanwhile the developing country debt they hold has a

higher yield reflecting its supposed riskiness. As we see below, private lenders to developing countries also have a privileged position e.g. often benefiting from World Bank and IMF bail outs. Finally, there is, once again, an element of vicious circle to this position – the transfer of wealth to developed nations, managed and facilitated by TBTF financial institutions, contributes to the inflation of the global financial system and feeds its volatility and hence the need for developing country self-insurance. ⁵¹

Illicit Financial Flows & Tax Avoidance

»Illicit financial flows (IFFs) are illegal movements of money or capital from one country to another. [They are often classified] as funds which are illegally earned, transferred, and/or utilized across an international border. The primary sources of illicit flows include grand corruption, commercial tax evasion, and transnational crime.« ⁵² The sums in question are enormous – the OECD quotes estimates by Global Financial Integrity (GFI) of 5.8 trillion US dollars in illicit financial flows from developing countries between 2001 and 2010. ⁵³ Trade-related illicit flows are one of the most important components of total illicit flows and occur typically through mis-invoicing, for example to evade custom duties, value-added-tax (VAT), or income taxes. GFI recently identified value gaps between 135 developing countries and 36 advanced economies in trade alone in excess of 815 billion US dollars in 2017. ⁵⁴

Most of this money passes into the global financial system after evading controls e.g. on money laundering – the numbers are obviously too large to be moving only in suitcases of used banknotes. As GFI says: »Logically, every dollar that leaves one country must end up in another. Very often, this means that illicit financial outflows from developing countries ultimately end up in banks in developed countries like the United States and United Kingdom, as well as tax havens like Switzerland, the British Virgin Islands, or Singapore. This does not happen by accident. Many countries and their institutions actively facilitate – and reap enormous profits from – the inflow of massive amounts of money from developing countries.« ⁵⁵ Revelations in 2022 about Credit Suisse ⁵⁶ illustrate the scale and scope of these flows. As does the infamous case of HSBC's involvement in money laundering in 2010: proceeds from drug sales were deposited in HSBC branches in Mexico, from where they were laundered and transferred to the US and elsewhere using the usual mechanisms of the global financial system. ⁵⁷

⁴⁵ UNCTAD 2020a.

⁴⁶ Painceira 2012: 186.

⁴⁷ Gallagher and Shrestha 2012: 502.

⁴⁸ Fernandez and Aalbers 2019; Kaltenbrunner and Painceira 2018.

⁴⁹ UNCTAD 2020a.

⁵⁰ Berry, Lindo and Ryan-Collins 2016.

⁵¹ Gallagher and Shrestha 2012: 501.

⁵² GFI 2020.

⁵³ OECD 2014.

⁵⁴ GFI 2020.

⁵⁵ *ibid.*

⁵⁶ <https://www.theguardian.com/news/series/suisse-secrets>.

⁵⁷ Mollenkamp and Wolf 2013.

In addition to illegal activities, tax evasion practices also result in outflows for developing countries. Here global financial firms are firmly implicated as »enablers and intermediaries«⁵⁸ – through lobbying for rule changes, as well as constant innovation of financial instruments that allow legal avoidance of tax. UNCTAD's World Investment Report 2015 estimated tax losses for developing countries of 100 billion US dollars due just to the conduit of foreign direct investment through »tax havens«.⁵⁹ In addition, the richest individuals in developing countries also evade tax through complex, international financial structures. Aside from the direct effect of financial outflows, tax evasion also undermines developing countries' domestic public finance (their largest development finance resource⁶⁰) and further increases reliance on external and TBTF-based global finance. In all these tax avoidance activities the largest, global financial firms are once again at an advantage, best placed to set up and transfer funds between international subsidiaries and branches of their own and other financial firms. Small local financial firms, be they in the capitalist core or in developing countries, simply do not have the same capacity to innovate and transact internationally, and to facilitate and enable illicit financial flows that TBTF financial firms have.

CONCLUSION

This paper has sought to understand the role of giant, oligopolistic, transnational financial firms, the so-called TBTF financial firms, in the chronic net outflow of financial resources from developing to developed countries. While neoclassical development economics and mainstream policy and rhetoric focus on the practices in and of developing countries, this paper has shown that attention must be paid to TBTF financial firms in the capitalist core, and their relations with actors in developing countries, if we are to understand, and tackle, this financial resource outflow.

Finance on the global scale is dominated by a relatively small number of giant firms with transnational and often global reach, both banks and institutional investors. They form the heart, or core, of a global financial system that we label TBTF-based finance. Smaller firms from the Global North and actors from the Global South are forced to plug into this hub as best they are able, but often to their disadvantage. As we have shown, TBTF firms are able to appropriate in various ways, amplifying and emphasising existing channels of financial exploitation and expropriation.

The position of the TBTF financial firms in TBTF-based finance gives them great scope to shift the rules of the game in their favour. They are able to influence the »common sense« of finance e.g. through funding university program-

mes,⁶¹ pushing a neoclassical and neoliberal view of the world in which markets are always the solution (except when the answer is emergency government bail-out!). Through their size they are able to be present in every step of the financial lobbying process,⁶² massively outspending and drowning out other voices, such as developing countries, civil society in the core and even smaller financial institutions. Their power is applied through conditionality of lending programmes, through trade agreements, through the use of credit rating agencies, and through a myriad of other ways in which international political pressure is applied. Developing countries are then left with little choice but to adopt globalised, market-based norms, in a form of extra-territorial regulation.

What should or could be done? TBTF financial firms are overwhelmingly based in the Global North and it is here that we must look for policy change that could improve the situation for ordinary people in developing countries and in the capitalist core. In the aftermath of the 2008 crisis many policy proposals were made by civil society, academics and even by associations of smaller and mid-sized banks to tackle TBTF.⁶³ Very few of these were implemented and the result is clear: the FSB, founded by the very largest economies, has failed – TBTF-based finance has only grown in the years since 2008. Yet many of the proposals made since 2008 remain valid. What is required is the political will to implement them. For that, progressive voices in the Global North, those concerned about the 99 per cent in core capitalist countries and in developing nations, must form coalitions to push for an end to TBTF finance.

One source of potential allies could be the climate movement, where TBTF-based finance is imposing its model on attempts to clean up the financial system. Capitalism is founded on the triangle of exploitation of peripheral nations (beginning with transatlantic slavery), accumulation in the core (beginning with English manufacturers) and ravaging of the environment (e.g. in the new world in the early days of capitalism).⁶⁴ Finance has always been part of this triangle, from Genovese financing Columbus to the slave trading activities of the financiers who went on to form global »merchant« banks.⁶⁵ Those patterns have continued down the years, taking new forms but remaining essentially intact. This paper has not had the space to tackle the ways in which TBTF finance is contributing to climate breakdown, but it is clear that the developed world has outsourced much of its climate impact to developing nations. Not only do they often remain stuck as primary producers, impeding development and with huge environmental impact, but they suffer the worst climatic impacts. Further-

⁶¹ For example, the Swiss Finance Institute, quite possibly Switzerland's most prestigious university-level finance institute is a partnership with private financial firms who dominate its various boards and governance. <https://www.sfi.ch/en/about-us>.

⁶² Corporate Europe Observatory, 2018.

⁶³ See, for example, Finance Watch 2020.

⁶⁴ Hickel 2020; Moore 2015.

⁶⁵ Rodney 2018.

⁵⁸ Tax Justice Network 2020.

⁵⁹ Cobham 2017.

⁶⁰ Eurodad 2017.

more, while developing nations continue to consume beyond their means (and vice versa for developing nations) the resulting resource extraction and manufacturing is often displaced to developing countries.⁶⁶ More research is urgently required to analyse the specific ways that TBTF finance impacts climate breakdown and biodiversity loss, and potentially to help form alliances in the North in order to put an end to TBTF-based finance.

⁶⁶ Steinberger, Krausmann and Eisenmenger 2010.

APPENDIX 1 – THE WORLD’S LARGEST FINANCIAL INSTITUTIONS

Table Appendix 1

Top 30 Global Banks

Rank	Name	Assets (billion US dollars)	Country
1	Industrial and Commercial Bank of China	4,324	China
2	China Construction Bank	3,653	China
3	Agricultural Bank of China	3,573	China
4	Bank of China	3,270	China
5	Mitsubishi UFJ Financial Group	2,893	Japan
6	HSBC	2,715	UK
7	JPMorgan Chase	2,687	USA
8	Bank of America	2,434	USA
9	BNP Paribas	2,429	France
10	Crédit Agricole	2,257	France
11	Japan Post Bank	1,985	Japan
12	SMBC Group	1,955	Japan
13	Citigroup Inc.	1,951	USA
14	Wells Fargo	1,927	USA
15	Mizuho Financial Group	1,875	Japan
16	Banco Santander	1,703	Spain
17	Société Générale	1,522	France
18	Barclays	1,510	UK
19	Groupe BPCE	1,502	France
20	Postal Savings Bank of China	1,467	China
21	Deutsche Bank	1,456	Germany
22	Bank of Communications	1,423	China
23	Royal Bank of Canada	1,116	Canada
24	Lloyds Banking Group	1,104	UK
25	Toronto-Dominion Bank	1,102	Canada
26	China Merchants Bank	1,065	China
27	Intesa Sanpaolo	1,058	Italy
28	Norinchukin Bank	1,011	Japan
29	ING Group	1,001	Netherlands
30	Goldman Sachs	993	USA
	Total of top 30	58,962	

As at 31.12.2019 (see source for details).

Table Appendix 2

Aggregate Assets by Nationality of the World's 30 Largest Banks

Country	Aggregate Assets (billion US dollars)
China	18,776
USA	9,993
Japan	9,718
UK	5,330
France	7,710
Canada	2,218
Spain	1,703
Germany	1,456
Italy	1,058
Netherlands	1,001
Total	58,962

Source: <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/the-world-s-100-largest-banks-2020-57854079>.Also available at : https://en.wikipedia.org/wiki/List_of_largest_banks.

Table Appendix 3

Top 20 Asset Managers

Rank	Fund	Market	Total Assets (billion US dollars)
1	BlackRock	USA	7,429
2	Vanguard Group	USA	6,151
3	State Street Global	USA	3,116
4	Fidelity Investments	USA	3,043
5	Allianz Group	Germany	2,539
6	J.P. Morgan Chase	USA	2,364
7	Capital Group	USA	2,056
8	BNY Mellon	USA	1,910
9	Goldman Sachs Group	USA	1,859
10	Amundi	France	1,617
11	Legal & General Group	UK	1,568
12	Prudential Financial	USA	1,550
13	UBS	Switzerland	1,413
14	BNP Paribas	France	1,257
15	Northern Trust	USA	1,231
16	Invesco	USA	1,226
17	T. Rowe Price	USA	1,206
18	Wellington Mgmt.	Canada	1,154
19	Morgan Stanley	USA	1,131
20	Wells Fargo	USA	1,091
	Total of top 20		44,920

As at 31.12.2019 (see source for details).

Table Appendix 4

**Aggregate Assets by Nationality
of the World's 20 Largest Asset Managers**

Country	Aggregate Assets (billion US dollars)
USA	35,369
France	2,874
Germany	2,539
UK	1,568
Switzerland	1,413
Canada	1,154
Total	44,920

Source: https://www.thinkingaheadinstitute.org/content/uploads/2020/11/TAI_PI500_2020.pdf.

Table Appendix 5

Top 25 Insurance Firms

Rank	Company	Country	Total Assets (billion US dollars)
1	Allianz	Germany	1,190
2	Axa	France	919
3	Prudential Financial	USA	815
4	Nippon Life	Japan	711
5	Berkshire Hathaway	USA	708
6	MetLife	USA	688
7	Japan Post Insurance	Japan	667
8	Prudential plc	UK	646
9	Legal & General	UK	626
10	Ping An Insurance	China	620
11	Assicurazioni Generali	Italy	591
12	China Life Insurance	China	579
13	Manulife Financial	Canada	550
14	Aviva	UK	547
15	JA Kyosai	Japan	529
16	Dai-ichi Life	Japan	505
17	American International Group	USA	492
18	CNP Assurances	France	476
19	Aegon N.V.	Netherlands	450
20	Life Insurance Corporation	India	449
21	Amundi	France	438
22	Zurich Insurance Group	Switzerland	395
23	Meiji Yasuda Life	Japan	380
24	Sumitomo Life	Japan	341
25	New York Life Insurance Company	USA	339
	Total of top 25		14,650

As at 31.12.2019 (see source for details).

Table Appendix 6

**Aggregate Assets by Nationality
of the World's 25 Largest Insurance Firms**

Country	Aggregate Assets (billion US dollars)
USA	3,041
France	1,833
Germany	1,190
UK	1,819
Japan	3,132
China	1,200
Italy	591
Netherlands	450
India	449
Switzerland	395
Canada	550
Total	14,650

Source: http://www.ambest.com/review/displaychart.aspx?Record_Code=274407.

Table Appendix 7

Pension Funds

Rank	Company	Fund	Total Assets (billion US dollars)
1	Government Pension Investment Fund	Japan	1,556
2	Government Pension Fund	Norway	1,066
3	National Pension Fund	South Korea	637
4	Federal Retirement Thrift	USA	601
5	ABP	Netherlands	523
6	California Public Employees	USA	384
7	National Social Security Fund	China	361
8	Central Provident Fund	Singapore	316
9	Canada Pension	Canada	315
10	PFZW	Netherlands	244
11	California State Teachers	USA	243
12	Employees Provident Fund	Malaysia	226
13	Local Government Officials	Japan	224
14	New York State Common	USA	215
15	New York City Retirement	USA	208
16	Florida State Board	USA	174
17	Employees' Provident	India	168
18	Ontario Teachers	Canada	160
19	Texas Teachers	USA	158
20	ATP	Denmark	145
	Total of top 20		7,926

As at 31.12.2019 (see source for details).

Table Appendix 8

**Aggregate Assets by Nationality
of the World's 20 Largest Pension Funds**

Country	Aggregate Assets (billion US dollars)
USA	1,984
Japan	1,780
Norway	1,066
Netherlands	767
South Korea	637
Canada	475
China	361
Singapore	316
Malaysia	226
India	168
Denmark	145
Total	7,926

<https://www.thinkingaheadinstitute.org/research-papers/the-worlds-largest-pension-funds-2020/>.

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TOO BIG TO FAIL: STILL A PROBLEM

A look at development finance



Developing countries suffer a chronic net financial resource outflow to developed countries, of hundreds of billions of dollars per year, reaching almost 1tnUSD/year during the financial crisis, part of a broader drain from peripheral to core countries that stretches back to the emergence of capitalism. To better understand it we examine the relation between developing countries and an international financial system dominated by too-big-to-fail (TBTF) financial firms. We find that the harm these firms do includes but is not restricted to being TBTF. Dominating developing countries in scale, scope and influence, TBTF financial firm's powerful position in the Global North helps them amplify and encourage forms of finance suited to their profits but not the needs of developing countries.



TBTF-based finance is associated with a rise in external, private and market-based finance. Developing country debt is increasingly unsustainable, with debt payments taking precedence over investment and services. Costly borrowing is also being used to build low yielding foreign exchange reserves as a defence against market volatility that stems in large part from the forms of finance imposed on developing countries by governments, regulators and TBTF financial firms of the capitalist core. TBTF-financial firms are at the centre of these transactions. What's more they act as facilitators and enablers of illicit financial flows and of tax evasion, costing hundreds of billions of dollars a year. During the covid crisis governments of the capitalist core retreated from development finance leaving the field even more open for private finance and TBTF firms.



Solutions to this problem do not lie in the practices of developing countries, but in the capitalist core. Reigning in the TBTF firms of the Global North would leave space for internal, public and non-market forms of finance, such as long-term, patient capital, to emerge, both in North and South. After the financial crisis the FSB pledged to end to-big-to-fail. They have failed. The problem is getting worse, and the costs are being born by working people in both developed and developing countries.

Further information on the topic can be found here:
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