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Beyond regulation: Money, banks and finance in a degrowth perspective

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Banks and other financial institutions play a key role in the growth economy and its destructive impacts on society and ecosystems. As investments largely depend on credit, financial institutions actually decide about where the money goes. As for private and corporate banks, their main criteria for lending are the maximization of return on investment and shareholder value. In many countries, such as Germany and the US, corporations are even obliged by law to focus on profit maximization. Consequently, credit flows to those sectors of the economy, which are most profitable. These sectors, however, tend to be the ones which are most successful in externalizing social and ecological costs, like the fossil fuel industry, mining industries, agribusiness, chemical industry, car and aircraft industry, military and so on – in other words: all those who play havoc with the people and the planet. Consequently, the question of how to block the flow of money into destructive sectors and how to redirect investment to where it is needed for people and ecosystems becomes central in a degrowth perspective.

Since the financial crisis in 2008/2009, there have been intense discussions about a re-regulation and „taming“ of financial markets. The main focus of these discussions was to make finance more stable, less vulnerable to bubbles and financial crashes, and to make finance serve the „real economy“ instead of speculation. However, the distinction between a good „real economy“ and evil speculation is highly misleading. Speculation can – no doubt – be extremely destructive, especially when its costs, after the burst of the bubble, are imposed on the general public. But „sound“, well functioning, stable financial markets, which serve productive sectors rather than mere speculation, are no less destructive, if they constantly flush money into the dirtiest sectors of the economy. Therefore, in a degrowth perspective the question of reshaping finance has to go beyond the frame of regulation. The issues of ownership and democratic control have to be addressed; the criteria by which investment decisions are made have to be shifted from the profit principle to the common good.

If some form of money and credit is needed in a degrowth society or at least during the transition towards a degrowth society, some of the **key questions** are:

1) Which types of financial institutions do we need in a degrowth perspective? Which rules, legal forms, property structures and decision-making processes are needed? Who should decide about money flows and by which criteria?
2) Are these forms to be purely local and small scale, or do we need middle and large-scale structures as well, at least for the transition?
3) Can we find starting points or prototypes of such structures in existing institutions, such as cooperative banks? If not, where can a transformation of finance start?
4) Which role can local currencies play?
5) What forms of capital controls are needed for a degrowth economy?
6) Can future banking crises open windows of opportunity to a radical transformation of money and finance? How can we intervene if big banks fail again and new bail-outs are on the way?

Proposals for transition

1) Many of the progressive proposals for regulating financial markets and for closing down all the parts of financial markets and financial products that mainly serve speculative purposes as well as more fundamental proposals for the reorganization of international currency systems (for example building on Keynes' idea of an International Clearing Union) are welcome from a degrowth perspective. However, they are not enough.
2) At least in the transitional period, investments are needed for the strengthening of social infrastructures and the commons (e.g. public services, care economy, education, non-profit and reproductive sector) or ecosystem enhancements (reforestation, climate adaptation, cleaning up industrial wastes etc.). These investments will not be profitable

in the short term and in monetary terms. To generate these non-profit investments, market mechanisms are entirely inadequate. Thus democratically controlled public investments are needed –a whole new institutional structure for investment control is necessary (public budgets, regional investment councils etc.)

3) In the 2008/2009 crisis things happened that were deemed impossible before: large banks were nationalized and their break-up into smaller units was discussed. Suddenly, the inviolability of private ownership had evaporated. However, nationalization in itself can hardly be seen as a solution to the destructive impacts of global finance, as state ownership has regularly turned out to be no better than private ownership. Moreover, nationalizations often serve as a means to socialize corporate losses and shift debts from private to public hands. New forms of finance must therefore go beyond state ownership. As in the case of energy systems, decentralized local and regional structures controlled by citizens are needed.

4) In the wake of the crisis, the financial system and capitalist logics in general have lost much of their legitimacy for large parts of the population. In this context, one of the central challenges is to connect struggles against the power of finance and social injustice, as they became manifested in the Occupy movement, to the struggles for ecological justice and degrowth.