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978-1-108-83915-0 — Public Banks: Decarbonisation, Definancialisation and Democratisation
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Excerpt
More Information

Introduction

> The impacts of climate change are worsening, even as greenhouse gas emissions continue to increase. Far more ambitious climate action – including climate finance – is critical, especially for the poorest and most vulnerable. Given these broad trends, it is clear that the world will not achieve the Sustainable Development Goals without a fundamental shift in the international financial system that enables us to address urgent global threats and restore trust in international cooperation. Action is needed at all levels.
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> UN Secretary General António Guterres, Preface to the UN Inter-Agency Task Force 2019 Financing for Sustainable Development Report, UN IATF (2019, iii)

> For the Global Green New Deal, the task is more of a marathon than a sprint. Here public banks have another advantage, because they have a more diversified portfolio and broader geographic reach to underserved areas and segments of the economy and (especially development banks) take a longer-term approach. By contrast, private (and especially foreign) banks are known for avoiding such lending as they pick profitable cherries elsewhere.
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> UNCTAD (2019, XII)

For decades public banks were largely forgotten, considered antiquated, and perceived as stagnant. Now they are *resurgent*, socially *contested*, and institutionally *dynamic*. In ways unimaginable just a few years ago, public banks have been catapulted to the centre of debate over sustainable, stable, and democratic development. This transpired as public banks were swept up in the events of three overlapping global crises – the crises of finance, of climate finance, and of Covid-19. As the 2008–09 financial crisis rocked the global economy, public banks lent into it. As it become apparent that private investors had failed to make good on a global green transition, public banks stepped in to help finance sustainable development. As emergency credits were urgently needed to face the impact of a global pandemic, public banks made them available. Through these crises public banks have emerged more prominent and powerful. But for

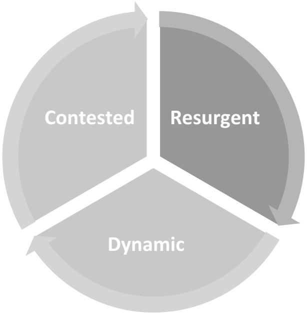

FIGURE I.1 Contemporary public banks in class-divided society

whom? And what does their resurgence say about the ability of public banks to change and respond to societal challenges?

This book argues that public banks are resurgent not by virtue of being publicly owned but because of the institutional functions they have acquired over time and can perform within class-divided society (see Figure I.1). The functions of public banks, however, are far from neutral within neoliberalism, tending to favour private over public interests. This is not always or necessarily so. As contested institutions within global capitalism, public banks have also acquired pro-public functions able to catalyse decarbonisation, definancialisation, and democratisation. They too have the capacity to respond to emergencies like the Covid-19 pandemic. While never without contradiction, the dynamic functioning of public banks can and must be institutionally reinforced in ways that catalyse a global green and just transition.

This is not a commonly held position. For many international finance and development agencies, public banks are more and more seen as delivering a win-win solution that can smooth unstable financial markets, catalyse new green investments, and mask the immediate impact of a global pandemic *without* undermining long-held neoliberal marketisation logics, addressing social iniquities, or displacing the primacy of private accumulation interests. Chief among these agencies are the World Bank, Organisation for Economic Cooperation and Development (OECD), European Union, and the United Nations Finance for Development Office, which pitch their support as conditional on public banks' 'pro-market' orientation, time-limited interventions, and willingness to support risk-return preferences of private investors (see IMF/World Bank 2015; EPSC 2017; OECD 2017; UN IATF 2019). The rationale is couched in traditional 'market-failure' narratives: public banks can and should be market-fixing, not displacing, entities tasked with 'blending' public resources with private capital to provide longer-term, lower-risk, and ideally more stable and greener *private* investment opportunities (Stern 2007; Bhattacharya et al. 2016; Badré 2018). The raison d'être of public banks in this mainstream narrative is to support market-based and growth-oriented economic development by leveraging private capital.

However, the mainstream contradictions between unlimited carbonising growth strategies and limited decarbonising investment commitments, as well as between the class-divided preferences of investors for the sustainability of *financial capitalism* prior to the socially equitable financing of *sustainable development*, are never addressed. They have been instead reproduced within the United Nations 2030 Sustainable Development Goals (Martens 2017; Hickel 2019). This is despite the growing evidence questioning the efficacy of blended finance (Attridge and Engen 2019).

At the same time enduring problems of gender oppression, social inequality, eroded labour rights, weak democratic decision-making, and the ecological limits of capitalist growth have been by and large absent from academic research on the future of public banks in economic development, sustainable or otherwise (see Clark et al. 2005; Cull et al. 2017; Ferrari et al. 2017; Griffith-Jones and Ocampo 2018; Naqvi et al. 2018). This has not been the case elsewhere. Civil society and non-governmental organisations (CSOs and NGOs), trade unions, and critical scholars have criticised the financial blending strategy as a reworked form of public–private partnerships more concerned with profit maximisation than with addressing sustainable development and just transitions (see Sweeney and Treat 2017; Brown 2019; Murray and Spronk 2019; Steinfort and Kishimoto

2019). Therein public banks and finance are, not uncritically, seen as potentially viable alternatives.

The stakes over the future of public banks are high, though this is too often not well understood. Neoliberal common sense is that public banks are basically incapable of financing economic development effectively, let alone spearheading ambitions like a global green transition. As economist Yongzhong Wang notes in passing, '[*o*]*bviously*, the considerable demand for infrastructure investment cannot be satisfied by the public sector alone' (2016, 1; emphasis added). Economists trust that, at best, public banks can enable the private sector and maximise private finance for development through blending. UN data reinforces such neoliberal common sense, alleging that public banks have combined assets of but \$5 trillion (UN IATF 2019, 143). What can \$5 trillion do when we need \$90 trillion in sustainable infrastructure investment by 2030? In this narrative, public banks can only leverage and catalyse private investment.

What if common sense is not good sense? What if the neoliberal narrative of public banking *incapacity* is more myth than fact? And if this were so, what if public banks could democratically catalyse an environmentally green and socially just transformation wherein the public interest took precedence over those of private investors?

The evidence suggests that these questions are anything but rhetorical. There are today 910 public banks worldwide that command \$49 trillion in assets, a mass of capital nearly ten times greater than official UN estimates (see Chapter 1). And public banks are on the rise. Not only have bank privatisations stalled but governing authorities, north and south, are creating new public banks in Canada, Nigeria, France, American Samoa, Germany, Indonesia, the UK, and elsewhere. The US may soon follow suit with the 2019 passage of the Public Banks Bill (AB-857) in California, the fifth largest economy in the world, and as other US states and municipalities pursue similar action. This is not to mention the two new China-backed multilateral banks, the New Development Bank and Asian Infrastructure Investment Bank.

While this public banking resurgence is seemingly against all neoliberal odds, it needs emphasising that public banks are not inherently contrary to private interests or neoliberal aspirations. Much of what public banks did in the late nineteenth and early twentieth century transitions to capitalism was to subsidise private capital formation within national borders (Gerschenkron 1962). Today private investors support the financial blending agenda featuring public banks in order to protect and magnify their own prospects of capital accumulation. Yet public banks are complex entities and have also developed enduring public interest and collective good legacies that can be built upon, including public service support, knowledge and capacity building, providing for essential infrastructure, social and cultural lending, directed support for farmers and trades, environmental financing, municipality financing, and more. In certain public banks, these legacies will not be easily subordinated to private interests as pro-public social forces defend them and even advance a more democratic, green, and equity-oriented agenda.

Be they pulled to the private or to the public interest by contending social forces, indications are that public banks will have a materially significant place in the future of global finance for sustainable development. It is thus a major failing of scholars concerned with finance and development that there has been no theoretical rethinking of public banks as powerful and contested, and therefore *dynamic*, institutions within global financialised capitalism (Marois 2021).[1] Quite the opposite. While the economics literature lists off possible new market-expanding tasks for public banks, it continues to depend upon fixed, opposing, and ideologically charged tropes of public versus private ownership with scholars constantly striving to produce the

[1] While a more ‘positive’ literature on public ‘development’ banks has emerged in recent years, it is largely atheoretical and narrowly focused on development banks alone, offering no wider framework on public banks within capitalism. The exception to this tendency has been the longstanding research of Kurt von Mettenheim and Olivier Butzbach (see the Bibliography for a list of relevant works). The work of Natalya Naqvi (2019) notably draws out some of the social and political forces influencing decisions on public banks.

final say on the ultimate benefits of one form of bank ownership over another (see Chapter 2). This book makes no attempt to bridge these polarised economic divides. It instead reverses causality by focusing on how socially contested institutional *functions* give meaning to a bank's public ownership form.

The timing could not be more urgent as we confront the extinction-level crisis of climate change and need to find ways of building forward better in the wake of a global pandemic. Policymakers have struggled to have private banks look beyond their bottom lines as Covid-19 wrought economic paralysis. Public banks, by contrast, have made time available for communities to adjust (see Epilogue). Neither have private banks been pulling their relative weight in climate finance. Public banks have but one-fifth the resources yet channel nearly as much capital as private banks into green investments. Contrary to neoliberal idealism, the short-term, return-maximising horizons of private finance have failed to generate a global *green* transition at the speed or scale needed. Private finance has also failed to prioritise a socially just transition. Amidst financialisation most people face stagnating or falling wages, rising job insecurity and anti-labour practices, the retreat of public provisioning of essential services, skyrocketing inequality of wealth and opportunity, and persistent racism and sexism (Stockhammer 2012; Storm 2018). Recurrent crises are being resolved according to a neoliberal logic, that is, by letting the costs of recovery fall disproportionately onto workers, women, racialised communities, and the most marginalised in society while the benefits accrue to the already capital rich – either through the direct bailouts of large corporations and private banks or through the knock-on socio-economic impacts of austerity (Marois 2014; Tooze 2018). These injustices prevail as marketised and consumerist human activities feed climate change and global warming. Societies will have to face rising sea levels and extreme weather conditions that will foster recurrent waves of mass migration and economic hardship. There will be increased burden on our natural environment, from the coral reefs to the carbon sinks of vast forests and wetlands. In response, low carbon and accessible infrastructure needs constructing, local jobs need protecting, fossil fuels need to remain in the ground, the planet needs cooling, and universal social equity needs action. The already-built environment will come under new and growing threats as we struggle collectively to refurbish existing stocks while maintaining and upgrading public services and infrastructure as we transition to a net zero-carbon emissions future.

All of this will require massive financial investments, and a sea change in how we reproduce humanity. This will be subject to class-divided struggles over who benefits disproportionately from what public banks can do in response. Private interests are pushing to have public banks first protect their financial returns by absorbing the risks of climate finance. Public interests have secured gains, making public banks open to funding decarbonisation and climate change mitigation projects, as well as mandating them to provide longer-term and stable financing for development, often in support of jobs in micro-, small-, and medium-sized enterprises (MSMEs). Governance frameworks have enabled public authorities to activate public banking capacity at the height of a global pandemic. But there is the risk that public banks will fall victim to private interests and capital accumulation imperatives within neoliberalism and to potential abuse by corrupt political elites and oligarchs even in democratic and accountable societies. Powerful material interests will fight to entrench pre-existing and class-divided structures of inequality. Strategic pro-public and democratised responses will need to provide a socially equitable and materially significant financial alternative. Existing public banks offer the most viable platform.

A political confrontation over the future of public banks is unavoidable. Yet it would be naïve to presume that there ever was a time when public banks were *not* subject to class-divided and politically coordinated contestation among social forces (von Mettenheim 2010; Marois 2012; McNally 2020). Who will get what from the accumulated capital and institutional knowledge of public banks? From a pro-public and social equity vantage point, there is little hope

FIGURE I.2 Public banks being made and remade

of a green and just transition without powerful public banks that can be democratically commanded to function in the public interest. Put otherwise, democratised public banks are a necessary, if by no means sufficient, condition of a green and just transition (Marois 2015). To be sure, none of what public banks do is natural or neutral, for public banks and their functions *are made and remade* by contending social forces in time- and place-bound class-divided societies struggling over the future of those same banks and functions (see Figure I.2). There is evidence, nevertheless, of existing public banks being made to work towards a pro-public green and just transition. The cases studied in the book show that public banks have acquired the geographical scale, financial resources, institutional knowledge and experience, and democratic credentials to lead a pro-public response. None of these public banks are without contradictions. There is the need to press for the 'public' in banks to be 'pro-public' and for that to be democratically armoured.

I.1 RESURGENT PUBLIC BANKS AND THE CRISES OF FINANCE, OF CLIMATE FINANCE, AND OF COVID-19

To understand the resurgence of and potential for public banks is to question what public banks are. For many observers, the simple answer is that public banks are financial institutions owned publicly by a state or government authority (De Luna-Martínez and Vicente 2012). There is truth in this no doubt, but it is limited. My view is that ownership on its own tells us little. Yet much of the finance for development literature fundamentally relies on ownership as *the* harbinger of inherent institutional characteristics (La Porta et al. 2002). For Keynesian 'development' approaches, public banks are stereotypically meant only to provide additional finance to the private sector, driving growth in the capital stock (Skidelsky et al. 2011; Griffith-Jones et al. 2018). For neoclassical 'political' approaches, public banks are meant only to serve politicians' self-interests, causing market inefficiencies and economic underdevelopment (Barth et al. 2006). In these economic narratives a bank's public ownership form determines its intended institutional functions, albeit with different conclusions. Confusion and uncertainty abound as empirical evidence substantiates competing claims both for and against public banks (see Chapter 2). The underlying conceptual essentialism impoverishes our understandings of otherwise diverse and complex public banks around the world (Butzbach et al. 2020). Nowhere is this dynamism more striking than where public banks tackle decarbonisation, definancialisation, and democratisation in compelling *and* contradictory ways.

An alternative dynamic approach to public banks in contemporary capitalism is therefore needed, an approach that does not permit essentialised tropes of public versus private ownership to predetermine what it is to be a public bank. Such an alternative must allow for historical and institutional change within capitalism, itself a global system of social reproduction driven by intra- and inter-class competition, conflict, and resistance (Coates 2014, 27). Rooted in political economy, the historical institutional and materialist approach of this book is to theorise public banks as socially contested and evolving entities, made and remade in time- and place-bound contexts within the wider structures of global financialised capitalism (Marois and Güngen 2016). To do so, institutional functions logically precede ownership form (Figure I.3; cf. Ho 2017, 2020). Such functions are not taken as timeless or fixed but rather as evolving and subject to the pull of contending public and private interests in class-divided

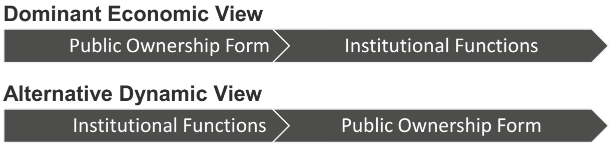

FIGURE I.3 Ownership form and institutional functions

society. What social forces have public banks *do* make them what they *are*. This *dynamic* view of public banks offers a unique interpretation capable of accounting for the different institutional types and divergent practices of all public banks, as well as for their potential transformation.[2] Whereas existing economics scholarship has not moved past static views of ownership, a dynamic view offers a pathway to understanding the resurgence of public banks vis-à-vis the crises of finance, of climate finance, and of Covid-19 in non-essentialist and socially contested terms. To stress the point, a dynamic view of public banks, be they development, commercial, or universal types of public banks, does not accept that their public ownership form equates to any teleological purpose.

To eschew an ultimate purpose, however, is not to suggest that there are no such things as 'public banks' or that 'being public' is of no material consequence. Not at all. But it does complicate what it is,

[2] Chapter 1 goes into detail on the different types of public banks (from central banks to savings banks), how they fit into the credit system, and how they work with other financial institutions. Chapter 3 situates public banks historically. When referring to 'public banks' in this book, I focus on public commercial/retail banks (first tier), development or investment banks (second tier), and universal banks (combining commercial and development/investment functions). In brief, commercial banks are typically deposit-taking institutions with branch networks that provide regular banking services for individuals, households, SMEs, corporations, and governments. Development banks do not typically accept personal deposits or offer personal banking services (although there are exceptions) but instead specialise in accessing cheaper sources of capital, supporting long-term investments, and providing technical expertise to commercial banks, other institutions, firms, and governments. Universal banks combine both these functions, taking deposits and offering regular banking services while providing funds, investment strategies, and expertise for longer-term development.