CHANGE FINANCE OR LESS FINANCE?

Speech given by Frédéric Hache at the AEMS summer school Vienna, 30 July 2021

I would argue provocatively that "**regulating international finance for social progress and to protect the environment" – the title of this session - is a debatable and dangerous framing**. Addressing social and environmental issues is indeed **best done outside of finance**, and while financial regulation can play an additional minor role, it risks **distracting from the bigger picture**, which is the need to curb inequalities and environmental destruction through binding social and environmental regulation.

Accepting the framing that finance has a key role to play – which may underlie the title of the session – **means having already lost the battle to save the environment**. Once you accept this framing, the political debate will shift away from the need for appropriate binding environmental regulations phasing out fossil fuels, and towards secondary topics such as how much subsidies and transparency are necessary to incentivize the financial sector to green itself. Such a framing also **empowers the financial sector**, that can then negotiate dearly its participation, instead of merely complying with the law as any other sector.

We are currently witnessing an **unprecedented expansion of financialization**, to nature and then to human life, through the **creation of new asset classes** for investors that will ensure tremendous profits for the financial sector.

Nature is currently being **reconceptualized as a series of services** that benefit human well-being, valued in monetary terms, and transformed into financial instruments that can be freely traded.

In reality it has been shown that what is being measured is not nature but **only a few arbitrarily selected services** while the rest is wilfully ignored for simplicity's sake.[1]

It has also been shown that the monetary valuation methodologies used are incredibly simplistic and biased, relying mostly on surveys where you would be asked for example **how much you are willing to pay for the Stadt Park to still exist next year**. As a result, the values being produced do not represent nature, not even a proxy.

You may be happy to learn that the European Commission has valued EU's nature at €234bn.[2] To put it in perspective, this figure represents roughly 1 month of revenues for the

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[1] https://greenfinanceobservatory.org/wp-content/uploads/2019/05/50-shades-biodiversity-final.pdf

[2] https://ec.europa.eu/environment/news/measuring-what-ecosystems-do-us-new-report-ecosystem-services-eu-2021-06-25_en

oil and gas sector. It is thus not clear whether such a figure will help protect nature, or facilitate its destruction.

But this doesn't matter since **the goal here is to protect nature only insofar as it does not challenge the status quo, vested interests and the hegemonic focus on economic growth**. By adding new sustainability bells and whistles, this approach avoids questioning the current paradigms.

This neoliberal approach to conservation called natural capital is currently being implemented in the European Union and promoted by the UN, the OECD and the World Bank.

Likewise, **a new concept of human capital is currently being implemented** in the UK,[3] New Zealand, China and Canada, and promoted heavily at EU level by business lobbies.

According to this approach **human life is being valued based on future expected salaries**, meaning that the life of a banker is worth more than the life of a nurse, and that the life of an Austrian is worth more than the life of an African.

This concept of human capital has many potential consequences for public policy:
- It can be used to **defund public education in the arts and literature**, under the argument that such studies do not maximise future earnings;
- It can be used to **defund public healthcare for the elderly** as their future earnings potential is lower than that of younger people;
- **It transforms the relation between a government and its citizens** from one with multiple dimensions to the one between an HR department and its employees.

Of course, this approach is being framed in a nice, fluffy and conveniently vague way as new inclusive and sustainable metrics that complement GDP, called "**inclusive wealth**" or **"well-being**", and being the sum of produced capital + natural capital + human capital.

While these initiatives are often presented as being post-growth, in reality they **provide the social licence for economic growth maximisation to continue**, thanks to new mostly meaningless natural capital side constraints.

This approach to nature is **also part of the new EU sustainable finance**, being included in the taxonomy, which means that it will likely be included in the future eco-labelled retail saving products proposed by your bank.

So, more growth – misleadingly called sustainable - and more financial markets, presented as the solution to address climate change, biodiversity loss and social issues.

[3] https://greenfinanceobservatory.org/wp-content/uploads/2021/05/Nature-Life-relations-finales.pdf

A corollary of this push for new financial markets on nature is a **redefinition of the role of the State**, from a Sovereign actor to a standard setter and a subsidies supplier for global private finance, as per the Wall Street consensus.

It is also worth noting that one of the focuses of this new carbon and biodiversity finance is developing countries, **their biodiversity-rich tropical forests and their stretched public finances providing tremendous economic opportunities for global private finance**. In this sense, this story is not new at all: buying cheap land in developing countries, planting a few trees, claiming incorrectly that it compensates for climate inaction in developed countries, and opening up new markets for foreign investors in the process.

As for whether the current brand of sustainable finance can contribute to addressing climate change and biodiversity loss, consider that the former chief investment officer for sustainable investing at BlackRock – an expert if ever there was one - called it a "*deadly distraction*"[4] providing false hope, the real solution residing instead in his view in government regulation. I couldn't agree more.

Of course, making finance truly sustainable does not require any of these new financial instruments and asset classes: traditional environmental and social regulations would automatically impact the future expected revenues of all economic activities – as any regulation does - capital flows would shift accordingly, and all private finance would automatically and immediately become sustainable.

The financial sector has already pivoted, having long realized that there was far more money to be made with the new environmental asset classes than with financing coal, hence its willingness to "change." Indeed, according to a report from the WEF published last year, climate and biodiversity finance could **unlock an estimated $10 trillion (!)** of business opportunities.[5] The financial sector is thus already largely onboard, only lobbying for more time to remove fossil assets from its balance sheets at minimum cost.

Most other sectors are also starting to realize that **the narrative about the key role of finance was a gift for them, shifting the focus from potential new environmental regulations** that would mandate the curbing of pollution and destruction – and therefore cut their profits – to minor debates about disclosure, transparency, rules to purchase of offset credits and conditions to issue green bonds.

Not everyone seems to have realized that the industry has already pivoted though, as **a number of NGOs and academics keep on pushing for finance to stop financing fossil fuels while failing to condemn in parallel the new natural capital approach, thereby missing the wood for the trees** and being the unvoluntary useful allies of the financial sector.

For all the above reasons, **we strongly reject the narrative according to which the financial sector would have a key role to play for social progress and to protect the environment. And**

[4] https://eu.usatoday.com/story/opinion/2021/03/16/wall-street-esg-sustainable-investing-greenwashing-column/6948923002/

[5] http://www3.weforum.org/docs/WEF_The_Future_Of_Nature_And_Business_2020.pdf

consequently, the question of whether it is well-regulated for sustainability purposes is of secondary importance at best, and a dangerous distraction at worst.

Incidentally, on the topic of financial regulation a **power balance that remains heavily skewed towards private interests means a high likelihood of failure to adequately regulate**:

First, consider that **attempts to regulate finance over the past decade, in the wake of the worst financial crisis, have mostly failed**, with most macro-prudential regulation proposals ultimately dropped, and calls to regulate shadow banking in Europe quickly replaced by legislative proposals to promote and subsidize it, under its rebranded name of "market-based finance."

Consider also the fact that **the recent EU list of green economic activities** called "taxonomy of sustainable finance" includes a significant number of dirty activities such as cement and steel manufacturing, data centres or cattle farming.

As the **same imbalances in power and lobbying are at play today** as when these previous failures happened, it seems fair to expect little in terms of actual financial regulation.

Based on all the above, we conclude that truly addressing social and environmental issues and **changing the paradigms that created them requires not to change finance but less finance.** Therefore, we should **not fall into the trap of believing that finance – sustainable or not - has a key role to play**, but remained focused in asking for appropriate binding environmental and social policies.

We also conclude that advocacy efforts to push banks to divest from fossil fuels must go hand in hand with efforts to prevent them from financializing nature under the guise of making finance sustainable.

Whether called natural capital, ecosystem services, nature' contribution to people, ecosystem-based approaches, nature-based solutions, inclusive wealth or well-being, these neoliberal concepts have demonstrably little in common with nature and can therefore not be used to address the existential environmental threats we are facing.

Let us not empower the financial sector further by endorsing the debatable narrative about its alleged key role. Paraphrasing French philosopher Bruno Latour, **far more than changing finance, what is urgently needed is less finance**, i.e. less - not more - financial markets, less financialization and more regulation.
