Reconstructing the financial system for sustainability

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FESSUD is funded by the European Union under the 7th Research Framework programme (theme SSH)
Grant agreement nr 266800. These views are only those of the author(s) and the E.C is not liable for the use of any information contained therein

Introduction

- Sustainability is here considered in terms of:
- A financial system which is sustainable and relatively stable
- A financial system which serves the needs of environmental sustainability

Financialisation and instability

- The processes of financialisation over the past three decades have involved:
- large –scale expansion and proliferation of financial markets over the past thirty years.
- de-regulation of the financial system itself and the economy more generally
- the expansion and the proliferation of financial instruments and services

Financialisation and instability

- the dominance of finance over industry.
- strongly associated with market mechanisms, complemented or even reinforced by policies that have underpinned rising inequality of incomes and of inequality more generally
- consumer debt often linked with property
- and many more financial crisis with substantial costs.

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- Under financialisation the positive relationship between ‘financial development’ and economic growth may well have ceased;
- Specifically the ways in which the financial sector grew were not helpful for growth of whatever form.

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- The era of financialisation (since circa 1980) has been associated with somewhat slower growth in industrialised countries (and rising inequality).

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- Could argue that financialisation tends to slow growth; the requirement is for de-financialisation which is consistent with ‘green growth’.

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- Financial systems inherently unstable and prone to crisis; even apart from the power of the financial system, it is not possible to construct a financial system which will not be prone to 'booms and busts'
- The financial system should be structured for finance to serve the economy rather than the reverse.

Financial (in)stability

- Can financial system be constructed which is less prone for crisis? and which focuses on channelling funds into the socially desirable investments?

Savings and investment

- Main focus should be on the quality of investment and not on the quantity
- The 'over-savings' issue as evidenced by budget deficits – the tendency of savings to exceed investment.

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- The thrust of the argument here is that the size of the financial sector should be shrunk, and policy attention focused on the channelling of funds in socially desirable directions
- Overcoming discriminatory credit rationing

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- The pervasive credit rationing and allocation functions of the financial sector

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- Financial transactions taxes (and similar) to reduce the trade in existing financial assets, particularly high frequency trading and similar
- Purpose of such taxes are to discourage such trading, and to raise revenue.

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- The development of a diverse banking system with alternative forms of ownership: private, public, mutual and co-operative

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- The need for State development banks with clear objectives favouring ‘green investments’ and fostering relevant research programmes

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- A ‘green’ Community Reinvestment Act: placing requirements on banks that a high proportion of their loans are directed to environmentally friendly investment (recognising the difficulties of monitoring such a scheme)