DEMOCRATISING TRANSFORMATION

CREATIVE BUREAUCRACY FESTIVAL

LEARNING TO DESIGN THE COMMON GOOD TOGETHER

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FINANCING INFRASTRUCTURE TRANSITIONS – Michael Peters / Finanzwende Recherche

My work is focused on financial markets and how they interact with the real economy. In March 2020 financial markets were rocked by the pandemic. Stabilising financial markets through expansive monetary policy was a crucial response to the COVID pandemic, however, this led to private wealth increasing massively. Paired with the expansive fiscal policy which increased pressure on government finances, as things stand this will once again favour the use of private capital to finance the social-ecological transition.

This reliance on private capital is problematic, because the transition will require investment in sectors that might not be profitable, such as: infrastructure, renovation of buildings, research and development. However, financial markets predominantly fund investments that offer (high) returns. This is often neglected. We need to be aware of this issue and make this part of the political discussion. Only some investment will attract private capital, financial markets will not automatically lead the way. It seems like a lot of governments are currently hoping for just that.

Politics has been dominated by the neoliberal paradigm, which argues that the private sector can do it better, that efficient financial markets can do it better and that is why the government should not engage. However, there are prominent examples such as housing or health care where the financialized private sector has clearly failed to produce collectively good outcomes. Trying to squeeze as much profit as possible from housing or care homes usually leads to the quality deteriorating. The public perception of this "the market will do it better" narrative has been slowly changing throughout the last few years, where governments were frequently called upon to support and rescue different economic sectors.

We will need public finances to take the lead on infrastructural investments. We will also need private investment to address the socio-ecological transition. However, there should be clear rules. If public capital is needed to “stimulate” private capital, then the public sector should also receive its part of the earnings.

Currently, most sustainability goals are voluntary. Making them part of business models is not easy and in some cases could lead to businesses becoming unprofitable altogether. This is a massive battleground of vested interests as the discussion around the EU green taxonomy has proven, where the EU commission advocated to deem energy from nuclear and gas as sustainable. A different approach could be to make CEO compensation dependent on achieving sustainability goals. This could affect the way firms make decisions.

I envision a much more active state than we had in the past, subsidies or different governance mechanisms for companies that have a different goal. If you want to invest in areas that are not for profit, you need different models, but you also need someone that pushes for it. And so you will need a connector that facilitates this. There are discussions about the idea of public asset managers. You have private asset managers like BlackRock, but you could also have something like this with public money and support new ownership mechanisms. Public asset managers could be prototyped in one specific area. You could, for example, start with the renovation wave in Europe. There are a lot of houses that require renovation to be compatible with climate goals. This will require a lot of capital, with expected returns being rather low.

If I could choose a superpower, it would be the ability to close tax loopholes. For democratising the transition, it is crucial to change the legal code.