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Towards a Green Public Bank in the Public Interest

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Contents

Acronyms

CSO	Civil society organization
GDP	Gross domestic product
IFI	International financial institution
IT	Information technology
KfW	Kreditanstalt für Wiederaufbau (*Credit Institute for Reconstruction)*
LCCR	Low-carbon, climate-resilient
NGO	Non-governmental organization
OECD	Organisation for Economic Cooperation and Development
SME	Small and medium enterprise
SOE	State-owned enterprise

Abstract

Four decades of neoliberal market fundamentalism and its relentless assault on the public sector and our understandings of *publicness* have generated a profound crisis of social reproduction and environmental sustainability. Private sector financial solutions and market signals have not tackled climate change at the speed and magnitude required, often instead magnifying our social, economic, political, and environmental challenges.

This paper discusses the rediscovery of public banks and their potential—to finance low-carbon, climate-resilient development, and as a public sector alternative that can overcome the shortcomings of the private sector and market approaches mentioned above. The paper suggests an ideal-type public bank that would be needed for a green transformation that is also in the public interest. The ideal type is crafted around five central features: mandated role; financial sustainability; operational strategy; democratization of governance; and integral integration of workplace and community. The defining characteristics of each feature can be found in existing public banks.

Putting forward an alternative conceptualization that focuses on the public interest, sustainability and social equity concerns, this paper contributes important insights to the current debates on sustainable development and a just and equitable green transformation.

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1. Introduction

Four decades of neoliberal market fundamentalism and its relentless assault on the public sector and our understandings of *publicness* have generated a profound crisis of social reproduction – that is, the integrated labours involved in giving life to and sustaining this and coming generations of people – and of environmental sustainability. Collective and complex problems have been often reduced to simplistic and atomistic responses. Short-term profit trumps long-term planning. Personal creditworthiness is deemed more important than contributing to the community. Today's youth have little expectation of being economically better off than their parents. Authoritarianism has reared its ugly head alongside renewed forms of racism and sexism. Many face an apparent dystopia of political inertia to confront widespread inequality and exclusion. And, if we don't dramatically change how we produce energy and use natural resources, we are in imminent danger of cooking humanity to death. In short, the competitive individualism and market-based profit imperatives of neoliberalism and financialization have failed, remarkably, to resolve long-standing developmental problems. Worse yet, such market-based approaches have magnified the social, economic, political, and environmental challenges we must now face.

But there is hope. Indeed, not only hope, but actually existing, actionable, and desirable options that offer public sector alternatives to the societal challenges faced. Environmentalists, civil society, unions, non-governmental organizations, and academics have showcased such alternatives, highlighting how the public interest can be served by providing collective responses.[1]

Yet the problem of financing a green transition in the public interest remains particularly troublesome. The 2030 Agenda for Sustainable Development and the 2015 Addis Ababa Action Agenda on Financing for Development recognize that the transition to a low-carbon, climate-resilient (LCCR) future will require massive amounts of long-term, low-cost, and supportive credits (estimates are in the $90 trillion range) alongside appropriate financial expertise. However, today's financial system is "structured around short-term frameworks and horizons … where the primary concern is typically making a fast profit" (EPSC 2017:11). This short-term, profit-oriented approach is not an accident. It reflects conventional policy frameworks that have promoted private sector financial solutions, hoping that market signals would sufficiently confront the climate financing challenge. Private finance has responded at neither the speed nor magnitude required.

In response, policy makers have rediscovered public banks. These are banks owned and controlled by the state or some other public entity governed under public law. These banks operate at the municipal, state/provincial, national, regional, and multilateral levels. And they can work differently than private banks. Whereas corporate banks must first respond to profit imperatives, public banks need not. This is because public banks are mandate-driven institutions. Their mandates may include municipal, national, or international development goals; agricultural and small trades support; water infrastructure; export trade; tourism; and so on. Public bank mandates may *or may not* include turning a profit. If mandated to profit, this may be on equal footing with other mandates. This depends on a public bank's social and political context, which differs fundamentally from the imperative to maximize profits characteristic of private corporate banks. Consequently, public banks can excel at pursuing mandates like sustainable development.

[1] McDonald and Ruiters 2012; Pradella and Marois 2015; Kishimoto and Petitjean 2017; Jones and O'Donnell 2017.

Public banks, moreover, retain significant financial capacity. Despite 40 years of neoliberal privatization efforts, public banks control some 25 percent of all global banking assets, holding $35 trillion in assets that constitute about 46 percent of global GDP (de Luna-Martínez and Vicente 2012; Orbis 2017). Most experts now agree that mobilizing these public financial resources could prove catalytic in driving alternative and green development strategies.[2]

Yet public banks are only *potentially* catalytic and there is no rock-solid guarantee that their resources will be used in the public interest. Some public banks continue to plough money into dirty oil and coal energy while others get mired in corruption scandals.[3] Public banks have had to adapt themselves to the post-1980s competitive context of neoliberal, finance-led capitalism in ways that often mimic private banking practices (Marois 2012). During this same time, market advocates and mainstream academics have undermined societal perceptions of the value of public services in general and the effectiveness of public banks in particular. Privatization was universally advocated. The ongoing crisis of climate financing, however, has demanded rethinking of public banks' potential. Here, too, there is no guarantee it will be in the public interest.

The public banking rethink has emerged over the last decade and involved key institutions like the World Economic Forum (WEF), World Bank, and Organisation for Economic Cooperation and Development (OECD). These global institutions have "rediscovered", and in turn attempted to "reclaim", public banking for their own market-based, private-sector oriented, sustainability narrative (WEF 2006; OECD 2017). The argument is that public banks should facilitate the *leveraging* of private financial resources by *absorbing* the financial and capital accumulation risks of the global green transition (WEF 2006; Smallridge et al. 2013). That is, public banks ought to wrap green investments in public guarantees to decrease private risks and increase private returns so as to make green projects "bankable" for the private sector (Levy 2017). Repackaged private interests continue to supersede the public interest.

On the one hand, we need new, catalytic financial alternatives to confront the challenges of contemporary capitalism – most notably, the challenge of a global green transition. On the other hand, the crafting of alternative financial mechanisms should not be left to conventional institutions and private interests. Critical scholars must not shy away from offering programmatic responses to real world problems. Unions, activists, non-governmental organizations (NGOs), civil society organizations (CSOs), and academics can together rethink how they have engaged public banking and the financing of the green transition.

To this end, I am concerned with the following question: What is the type of public bank needed for a green transformation that is also in the public interest? What the "public interest" might be is, indeed, tricky to define. There is no single or easy answer (*cf.* McDonald 2016). And I make no claim to offer a definitive interpretation. Yet my understanding is that the public interest is more of a historical social process than a thing in and of itself. It is about nurturing informed, sober, democratic decision making aimed at providing for one's community *before* individual enrichment and *against* bigoted practices. The public interest means respecting and protecting future generations from harm – be it social, political, economic, or environmental. Pursuing the public interest has no guarantee of success and no hope of being uncontested. It does nevertheless have the potential to promote an awareness of mutual interdependence and an ethics of

[2] Smallridge et al. 2013; Cochran et al. 2014; Marois 2015; OECD 2017.
[3] *cf.* Tricarico 2015; Cochran et al. 2015; RAN et al. 2017.

stewardship, mutual care, and collaboration in one's community (Wainwright 2014). The public interest is served, reflexively, by the public sector's *potential* to prioritize public benefits over private profits; to create public efficiency gains; to democratize the economy; to mobilize the useful knowledge of public workers; to work collaboratively across borders; and to promote decent jobs and working conditions for people. This paper therefore ties the public interest to any substantive green transformation.

Returning to the question of what type of public bank is needed, the answer offered here proposes an ideal-type public bank. This prototype of a green public bank working in the public interest is crafted around five central features: mandated role; financial sustainability; operational strategy; democratization of governance; and integral integration of workplace and community. As an exercise in ideal-type building, the paper remains, by design, a work in progress intended to provide a theoretically informed but concrete, if always malleable, model public bank that can confront the global green transformation, which necessarily overlaps with wider social transformation strategies. Following a section explaining how I approach an ideal-type model, the bulk of the paper then elaborates on the five core features. This is followed by a brief conclusion.

2. Arriving at an Ideal-Type: Methodological and Analytical Considerations

Critical, Marxian-inspired academic work rarely experiments with ideal-type methodologies, which are more common to Weberian scholarship – but it is not unheard of (*cf*. Cox 1987). Indeed, there are calls for radical, alternative, programmatic responses to global challenges, like climate change; and the wider failures of capitalism to resolve them have been noted (Castree and Christophers 2015). This paper is crafted with this in mind, drawing from a history of academic research and policy advocacy. This has involved a sustained critique of bank privatization (Marois 2012) and subsequent policy and NGO-oriented engagement with public sector alternatives.[4] The ideal-type features discussed below draw substantively on the Eurodad report (Romero 2017). However, this paper expands and modifies the features by employing an explicit critical political economy lens and public interest optic; by tailoring the features more closely to a green transformation; and by including public commercial (not just development) banks in the ideal-type.

The ideal-type public bank constructed relies on an inductive-like "adding up" strategy. While all features do not exist in any single public banking institution, each feature discussed is in operation in one or more public banks. The empirical basis of evidence is