Regulating investment in a degrowth economy

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Abstract: The freedom of private capital investment is at the heart of the capitalist market economy. Investment is thus directed towards the most profitable sectors of the economy, generally not those serving the basic needs of people and the planet. In this paper we analyze which type of investment is necessary and how investment could work in an economy in the process of degrowth. Which instruments of investment control are necessary? What are their repercussions in a globalized economy, in which capital has the exit-option of relocating to other regions, e.g. regions growing with high rates or offshore spaces? How could a fundamental re-regulation of investment, and hence a re-regulation of financial markets, work in the transition towards a degrowth economy?

The problems of investment in a degrowth economy

We need massive investments into the degrowth economy:

- Making the economy energy- and resource-efficient
- Extending the care economy

Research question 1: *Which institutional and structural changes are necessary, in order to enable sufficiently large investments into the reproductive degrowth economy?*

We need to drastically disinvest from and shrink the fossil-fuel economy:

- Shrink those sectors of the economy that cannot be transformed into the low-carbon economy (car-industry, redundant consumer goods etc.)

Research question 2: *Which institutional and structural changes are necessary to sufficiently shrink and disinvest from the industry that depends on fossil fuels?*

Forced "Disinvestment" – the necessary destruction of capital

The problem:

- Sectors depending on fossil fuels: one third of the global economy (Fortune Global 500, Wolf 2007, Exner et al. 2008) – these have to be phased out rapidly
- Billions of USD are currently invested as fixed capital in the infrastructure of the fossil-based economy, which have not yet amortized
- We cannot wait, until this fixed capital has amortized – it has to be destroyed

Necessary policies:

- Taxes on investments
- Public investment control via binding guidelines
- Ban certain investments
- Ban the production of the most harmful goods, thus enforcing disinvestment from extremely harmful industries (similar to the policies phasing out nuclear energy and CFC)

Promoting non-profit investment - the need to shift from private to public investment

Different types of investment necessary in a degrowth economy:

- Enhancement of resource efficiency
- Substitution of conventional technologies with clean or low-carbon technologies
- Investment in social infrastructure (care economy, education)
- Ecosystem enhancement

The crucial problem: Some of these investments will have rates of return lower than commercial rates – and some will generate no profits at all

- ➢ The bulk of investment in a degrowth economy cannot be generated from private capital
- ➢ **Most of the investment will thus have to be public**

Financing public investments

We need to shift from consumption to higher savings

- In order to invest more, consumption has to decline
  - Although this shift is necessary on a macroeconomic level, poor classes have to be able to raise their standard of living through higher consumption

We need to transfer private money to the public sector

- Why? Because some investments will be non-profit or low-profit

Policies

- International taxes (FTT, kerosene)
- Taxing the rich
- Special leeway on corporate profits
- Transferring the private financial system into a democratically controlled public banking system (Felber 2010)

Stopping the *exit option* of globalization - regulating financial markets

Is a socially just degrowth economy possible in one country?

If confronted with policies of investment control, capital will exit: investment strike, capital flight

Capital thus needs to be controlled and regulated

- Taxing capital exports
- Restricting capital exports via quotas
- Currency transaction taxes to stop currency flight
- Deprivatizing certain sectors of the economy

Institutions of public investment control – Who can do it?

Public investment needs to be controlled democratically

Global investment fund at the United Nations

- to fund e.g. climate adaption and social services in the South

National investment funds

- to fund the transformation and conversion of specific sectors

Regional investment councils control regional funds

- these councils would include trade unions, employers, public officials and other stake holders (cf. the “Esslinger Räte-Modell” of the German metal workers union)

Who can do it?

Ultimately, investment control is a question of power. Without the intense struggles of unions and social movements, it cannot be achieved…

Thanks for your attention!

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