



# Degrowth -aligned Finance

**A preliminary exploration**

**Jennifer Wilkins & Anastasia Linn | May 2024**

## About This Brief

This short and simple brief provides supporting information to the Special Session 'Investing in Degrowth' at the 10th International Degrowth Conference and the 15th Conference of the European Society for Ecological Economics held jointly in Pontevedra, Spain, in June 2024.

The purpose of this brief is to aid understanding of the emerging elements of a degrowth-aligned financial system. The authors, Jennifer Wilkins and Anastasia Linn, are the organisers of the Special Session.

This brief does not provide a comprehensive overview of financial systems and does not provide financial or investment advice.

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# Part 1: Introduction

## Introduction

Degrowth is a normative transitional framework advocating for the intentional reduction of energy and resource use to meet needs within planetary limits, addressing inequality and improving wellbeing.<sup>1</sup> It challenges the traditional paradigm of economic growth, prompting the question: **How can investing practices and the financial system transform in line with real economy degrowth aims?**

Exploring the theoretical and practical aspects of degrowth-aligned finance is crucial for building a sustainable post-growth economy. This approach goes beyond conventional sustainable finance and the majority of impact investing as practiced today. Degrowth-aligned finance must enable systemic changes that move away from capitalism's extractive and concentrative mechanisms.

Elements of a degrowth-aligned financial system already exist, though are not yet widely practiced. The financial system is a temporal hybrid, evolving from past practices while being shaped by potential futures.

In this dynamic space, degrowth-aligned finance practices are already emerging to support real economy transitions by offering alternatives to hegemonic constructs and facilitating desired change.

This field is underexplored, with many questions and few answers. We aim to contribute by sharing initial sketches of what we've seen and insights into possibilities, to inform activists, academics, financiers and funders, helping to connect dots, challenge assumptions and inspire new thinking.

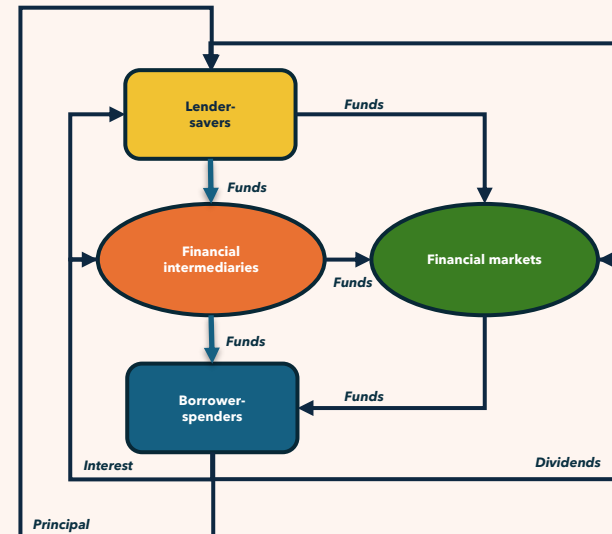
In Part 2 of this document, we describe the mainstream financial system and sustainable finance-as-usual. In Part 3, we show the foundations of a degrowth-aligned financial system. In Part 4, we point readers to additional resources.

## **Part 2: Mainstream & Sustainable Finance**

## Mainstream Finance

The financial system comprises institutions, instruments and markets facilitating credit transactions. In terms of scale, a third of the world's 50 largest companies in 2023 belong to the finance sector.<sup>2</sup> In traditional theories, scarce private capital from surplus holders (lender-savers) flows through intermediaries to deficit holders (borrower-spenders), aiming for efficient capital allocation (see diagram).<sup>3</sup> However, by practicing fractional reserve banking, banks create money when issuing credit – which is then monetised by central banks – tying a significant portion of money creation to interest-bearing debt.<sup>4</sup>

Financial intermediaries include commercial banks, leasing firms, venture capital, insurance companies and investment funds. Financial markets trade bonds, equities, currency and derivatives, with primary markets issuing new securities and secondary markets reselling them.

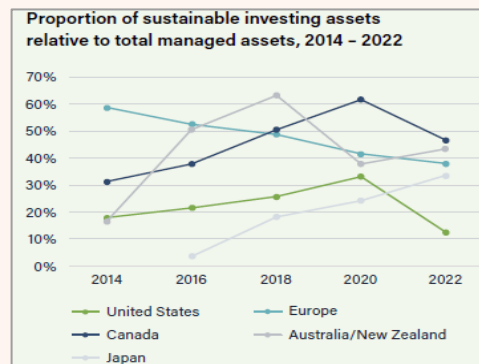


Flow of funds in the financial system, based on Mishkin, F., and Eakins, S. (2012). Financial Markets and Institutions.

Interest and dividends signify growth in finance, but it isn't clear what role finance plays in real economy growth. Some authors argue that interest-bearing debt enforces a growth imperative. Others counter that growth is driven by market and wage relations in capitalism; debt simply channels accumulation.<sup>5</sup>

## Sustainable Finance

Sustainable finance focuses on how investing and lending impact sustainable development, such as transitioning to a low-carbon economy. This relatively new field integrates sustainability into financial instruments (see right), although projects are still designed to appeal to traditional finance. This limits its potential to facilitate large-scale systemic change. Sustainable investing assets were recently found to be overstated once improved research methods and stricter fund labelling regulations took effect (see chart below).



Source: Global Sustainable Investment Review 2022

The field is increasing in complexity over time.<sup>6</sup>

### Finance-as-usual

Any investing and lending

### Sustainable Finance 1.0

Exclusion

### Sustainable Finance 2.0

ESG integration

### Sustainable Finance 3.0

Impact investing

Green bonds

Social bonds

Impact lending

Microfinance

Microinsurance

### Sustainable Finance 4.0

Climate and nature risk assessments across portfolios

Fintech / digital finance facilitation

Just transition finance

Gender lens investing

Sustainable finance taxonomies

Sustainable finance policy alignment to SDGs

Blended finance

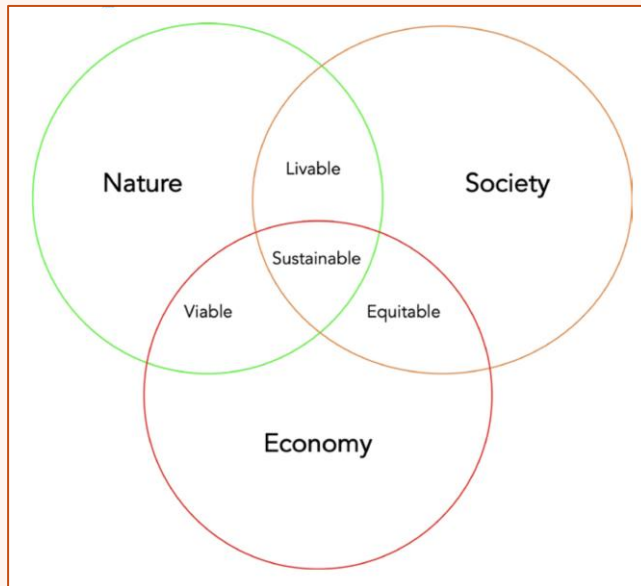
Investor engagement

Enterprise sustainability



## Finance for Mainstream Sustainability

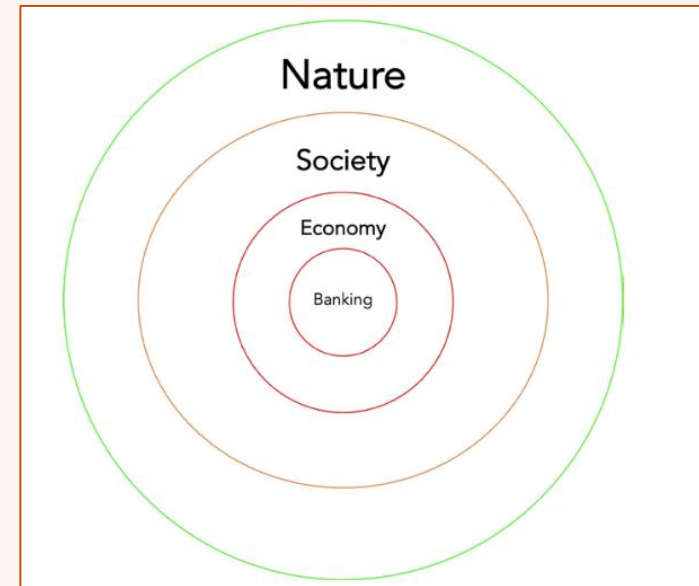
“Weak sustainability” assumes equivalence of nature, society and the economy. In this model, nature and money are substitutable. This allows profitability to be considered as valuable a pursuit as social and environmental outcomes.



Source of images: Barras, F. (2023). The case for a more sustainable banking regulation framework. <https://newsite.ethicsinfinance.org/project/the-case-for-a-more-sustainable-banking-regulation-framework-by-florian-barras/>

## Finance for Strong Sustainability

“Strong sustainability” takes planetary boundaries into account and recognises that these systems are embedded and interdependent. The economy cannot exist but for society and nature.<sup>7</sup>

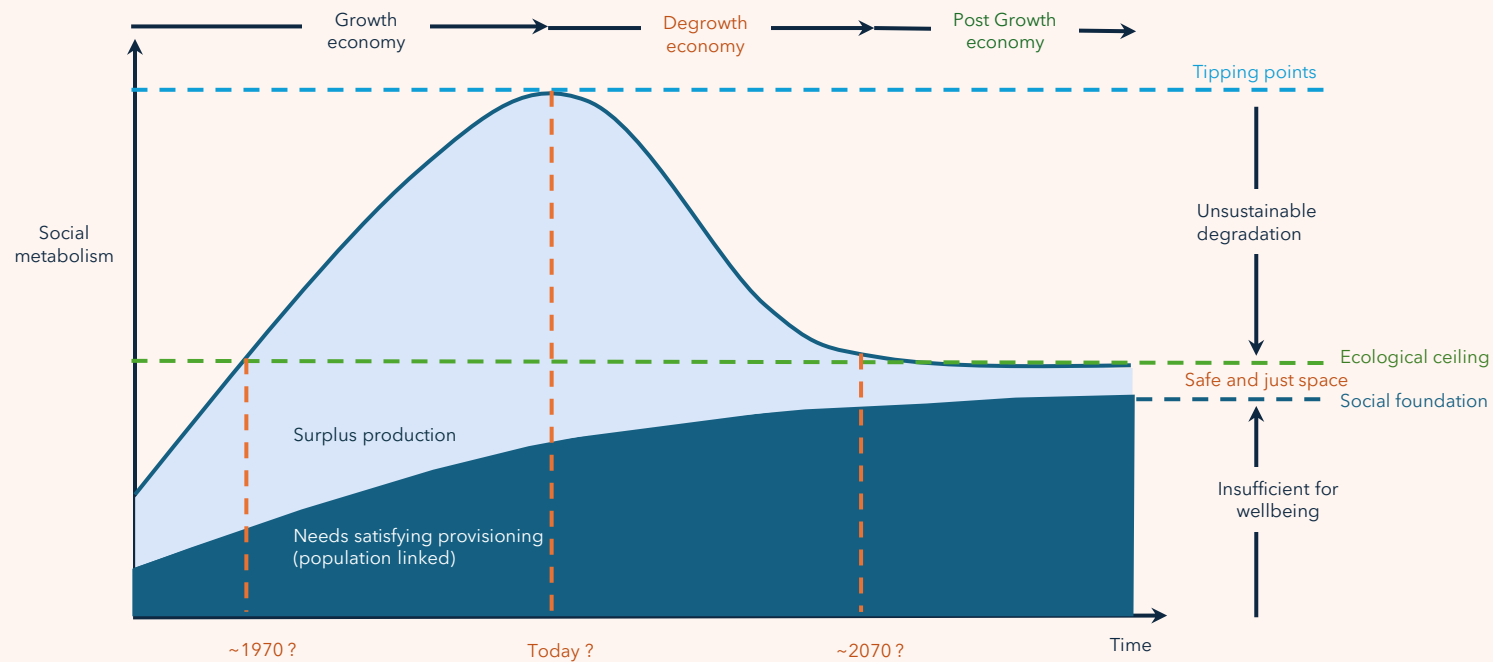




## Part 3: Degrowth-aligned Finance

## Degrowing To A Post-Growth Wellbeing Economy

Economic production requires extraction, waste and emissions (the social metabolism) harming Earth's systems, driving climate change and nature loss, surpassing a safe ecological ceiling and nearing environmental and social tipping points. A sustainable growth economy is unattainable. **To be sustainable, an economy must be post-growth with a lower social metabolism while meeting all wellbeing needs.** Degrowth is the transition to that.



## A Degrowth-aligning Economy

**The purpose of a degrowth-aligned financial system would be to support real economy degrowth.** This requires resourcing degrowth-aligning activities that reflect degrowth principles (see example in box below). The broader economic changes could include the following.

Aggregate production will decline over several decades before stabilising. Fossil fuel extraction will be minimised due to regulations and reduced demand. Industries like cement and steel could evolve as material alternatives develop.

### Principles of Degrowth<sup>8</sup>

- Sustainable and just
  - Enable ecological justice
  - Reduce material metabolism
- A good life for all
  - Strengthen social justice
  - Strengthen self-determination
- Redesign systems
  - Not dependent on growth for their functioning

The proportion of electricity that's renewable will continue to grow as industries and households electrify. However, demand for energy and unnecessary goods, such as luxury items, will decrease as society shifts towards sufficiency. Production will reorganize around the public sector, markets, communities and households to focus on meeting key needs, such as nutrition, shelter, mobility, and goods (clothing and appliances), equitably. Environmentally light activities, such as low-tech solutions, education and the arts, will grow. Degrowth-aligned enterprises will deprioritize profit, adopt participatory governance, explore alternative ownership structures, and rethink their strategy, size and scope.<sup>9</sup> Technological improvements for efficiency will remain essential to operating within bioregional tolerances for resource and energy use, allowing for the fulfilment of wellbeing needs within ecological limits.

## Degrowth-aligned Finance Objectives

Potential objectives could be:

1. **Resource degrowth:** Allocate funds to fairly provision decent living standards within environmentally safe levels of resource and energy use, returning the global economy to within a social foundation and ecological ceiling.
2. **Divest justly:** Gradually de-fund operations falling outside these limits, while addressing inequality and the wellbeing of those affected.
3. **Downsize and diversify:** Redistribute resources, rework financial instruments and reimagine institutions. Phase out finance activities disconnected from the real economy. Accept that financial returns based on real economic costs and value would likely be lower than current levels.

## Degrowth-Aligned Finance Values

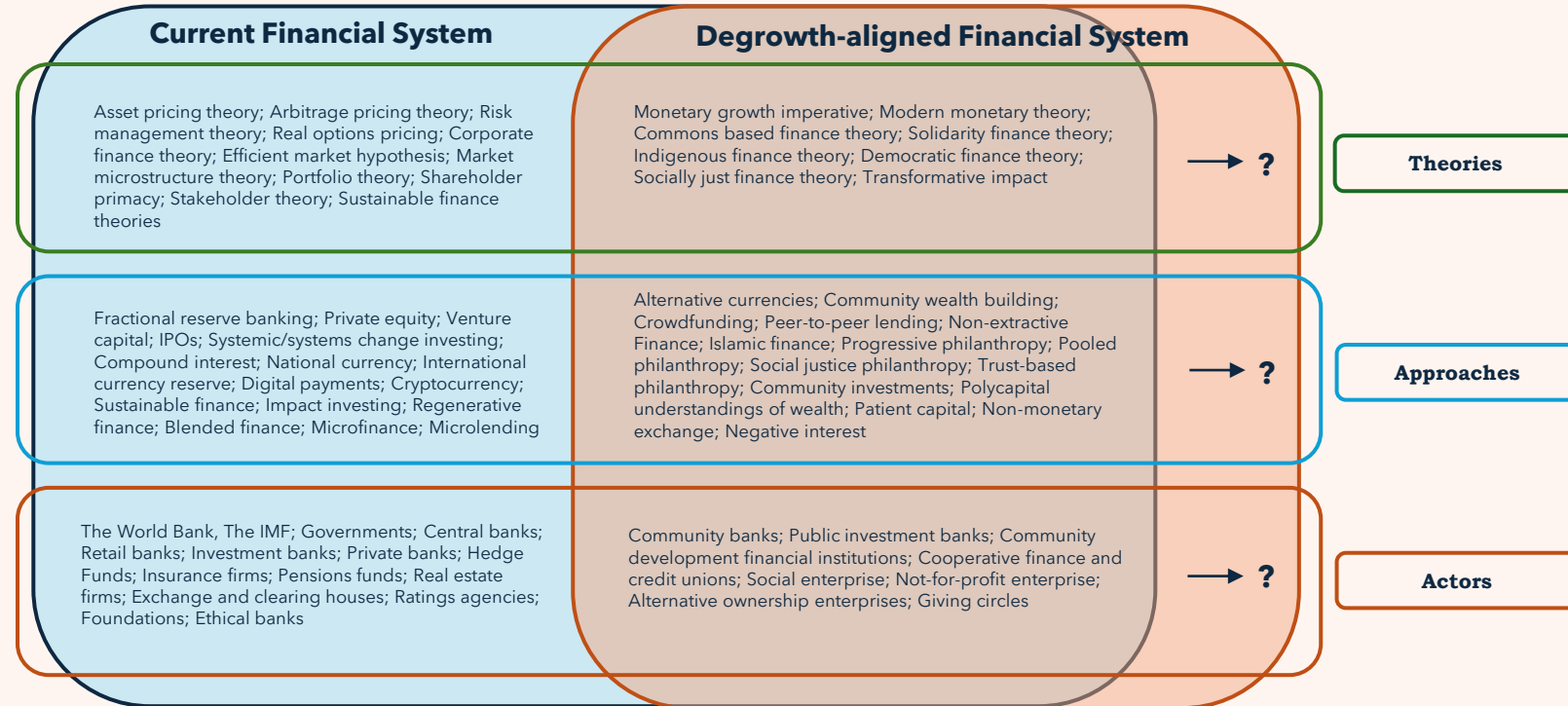
**Degrowth values can be applied to finance.**

Indeed, we see this as crucial to making finance genuinely sustainable. Below, are some first suggestions.

<b>Sufficiency</b>	Funding that provides for needs within planetary boundaries. Focuses on 'enough' rather than 'ever-increasing'.
<b>Regeneration</b>	Funding that gives more to communities and ecosystems than it takes.
<b>Distribution</b>	Funding that flows rather than grows, acting contrary to current dynamics of wealth concentration
<b>Commons</b>	Funding for stewarding shared resources with self-determination. Runs counter to trends of privatization.
<b>Care</b>	Funding for collective wellbeing. Understands risk in a broader sense than just investors' risk of losing money.
<b>Open-Source</b>	Information about practices is shared openly, in contrast to the strategic opacity of the current financial system.

# Financial System Hybridity: Emergent Practices

In some niches within the economy across investing, enterprise design and philanthropy, such changes are already taking place. The degrowth-aligned financial system is emerging interstitially, while the mainstream financial system continues to operate. While many don't use the term degrowth, some practices can be considered degrowth-aligned and many more may adapt to become so.



## Comparing Systems

Sustainable finance-as-usual differs from degrowth-aligned finance in terms of both “financing change”, i.e. the activities financed, and “changing finance”, i.e. the financial system structures. Some ideas are mooted below.

### Financing change

#### Sustainability 4.0

- Net zero goals
- Renewable energy
- Climate resilience
- Circular economy
- Product lifecycle management
- Digitalisation, real time data analytics, traceability
- Integrated reporting
- Sustainable procurement
- Just transition
- Consumer awareness

### Changing finance

#### Sustainable Finance 4.0

- Climate and social risk assessments across portfolios
- Fintech / digital finance facilitated sustainable finance
- Just transition finance
- Gender lens investing
- Sustainable finance taxonomies
- Sustainable finance policy alignment to global goals
- Impact metrics
- Blended finance
- Investor engagement
- Enterprise sustainability

### Financing degrowth-alignment

#### Degrowth 1.0

- Sustainability 4.0 plus:
- Right-sized firms
- Collaboration with communities
- Worker-owned
- Deprioritising profit
- Scaling social impact/relationality
- Minimal marketing
- Sharing resources
- Localised production
- Absolute limits

### Degrowth-aligned finance

#### Degrowth Finance 1.0

- Risk reduction across portfolios
- Address root cause of growth (debt and/or capitalism)
- Defund fossil fuels
- Just transition to degrowth “growth” sectors
- Post growth finance taxonomy
- Financial policy to meet social foundation
- Financial policy to meet ecological ceiling
- Innovations for alternative ownership
- Enterprise sustainability

## Summary

While this document isn't exhaustive or final in any sense, we hope that it can help connect some dots and draw attention to this emerging field.

We looked briefly at how traditional finance and sustainable finance-as-usual work today. Neither account for planetary boundaries and therefore are extremely limited in their ability to enable a sustainable economy.

We introduced some of the core concepts of degrowth and began to consider what these could mean for everyday finance and investing practices. We offered some first ideas for degrowth-aligned investing objectives and values and began to map out areas of emergence. The first seeds of a new degrowth-aligned financial system seem to be emerging interstitially in the form of theories, approaches and actors.

## Conclusion

Transitioning to a degrowth-aligned financial system invites us to redefine wealth, returns and risk. It creates ways to use funds wisely and secure distributed wealth in the safe harbour of resilient degrowth-aligned activities. Taking a long-term view, the counterfactual to the modest but resilient returns expected in a degrowth transition are not the high risk, high returns of the current growth economy, but rather the losses associated with a stagnating or contracting growth-insistent economy that has reached its limits.

Many of today's investments appear desirable in the short term by hiding risks and externalising costs that diminish liveability for all. We argue that investing in degrowth secures meaningful and qualitative prosperity. **And we can't imagine a more valuable return than that.**



## **Part 4: Additional resources**

## Other Sources

### Books

- [\*Democratizing Finance: Restructuring Credit to Transform Society\*](#), Edited by Fred Block and Robert Hockett (2022)
- Aigner, E., Buczko, C., Cahen-Fourot, L., & Schneider, C. (2022). *Money and Finance*. In N. Barlow, L. Regen, N. Cadiou, E. Chertkovskaya, M. Hollweg, C. Plank, M. Schulken, & V. Wolf (Eds.), *Degrowth & strategy: How to bring about social-ecological transformation* (pp. 351–374). Mayfly Books. ([Free PDF available from publisher.](#))

### Articles / Blog Posts

- [Positive Money White Paper: \*Escaping Growth Dependency\*](#)
- [Transformative Investment Principles](#) - Resource Generation
- [Triodos Outlook Report 2024](#)
- [Jefferies Bank: Ten Predictions for the Future of Climate Investing](#)
- [Degrowth the Next Step in Stakeholder Governance?](#) - Matt Orsagh. See also his [Substack](#) and [conversation with Tim Parrique](#).
- [System Economics](#) - Hans Stegeman's Substack
- [Why banks should become post-growth compatible](#) - Peter Haberstick
- [The case for a more sustainable banking regulation framework](#) - Florian Barras
- [An Emotional Guide to 'Fractional Reserve Banking'](#) - Brett Scott

### Audiovisual Resources

- [Exploring Postgrowth Finance webinar](#) by Degrowth Switzerland with Melanie Rieback, Vibeka Mair and Louison Cahen-Fourot
- [What ecological economists need to know about the financial sector – Podcast with Katie Kedward](#)
- [Re-imagining our Relationship with Profit: Envisioning a genuinely sustainable future in a not-for-profit world](#) Podcast with Jennifer Hinton
- Podcast: [Hans Stegeman & Timothée Parrique](#)
- Melanie Rieback's [PGE Course](#) (esp. [#8 on investment and finance](#)) / [Tedx Talk](#)
- [Non-Extractive Finance: A better way to invest sustainably](#) with Rennie Hoare, Melanie Rieback and Daniela Barone Soares
- [Decolonizing Economics Summit Video Archive](#) (including Decolonizing Finance sessions from [2023](#) or [Local Public Banking 2022](#))

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9. Hinton. (2021). Five key dimensions of post-growth business: Putting the pieces together. *Futures*, 131, 102761. <https://doi.org/10.1016/j.futures.2021.102761>