All too often when an economist or banker looks out at an expanse of virgin forest or free-flowing river, she doesn’t see nature — she sees “natural capital.” This concept promotes the view that our natural resources should be attached a value and managed using market-based principles of supply and demand. It is the cornerstone of the “green economy” that many free-market proponents and market-oriented environmentalists assert will provide environmental sustainability.

But relying on the market to sort out resource constraints and pollution problems is no solution at all. In fact, it provides a means through which global financial interests can profit off of the things we need most to live — like water. Instead, our essential resources should be viewed as a public trust, and part of the commons — managed collectively in the public interest, not for private profit.

In July 2011, Willem Buiter, chief economist at Citigroup, wrote that he expects “to see a globally integrated market for fresh water within 25 to 30 years. Once the spot markets for water are integrated, futures markets and other derivative water-based financial instruments — puts, calls, swaps — both exchange-traded and OTC will follow.” Valérie Issumo, a Switzerland-based economist, has developed what she terms an “Ethical Water Exchange” designed for the “commoditization of treated water” on which futures can be traded or “be the conditions for credit lines.”

Rarely do we get such a clear-cut view of the desires of global financial interests. Both Buiter and Issumo represent a movement to financialize our common resources, a movement that lobbies against common-sense regulations (often rejecting them as “anti-business”) and seeks instead to reap large profits in the name of protecting the environment.

Relying on market-based schemes to protect the environment and fight climate change is misguided. In 2007, former World Bank chief economist Nicholas Stern described climate change as “the greatest and widest-ranging market failure.” In the wake of the largest financial crisis in 75 years, one both created and spread by the use of ‘innovative’ financial instruments, the impulse of financiers to push more market-based schemes and more reliance on financial instruments to fight climate change or distribute water makes no sense. Yet, this same financial crisis has motivated actors in the finance sector to look for new ways to earn the huge profits to which they have become accustomed, and to see natural resources as the next horizon for growth.

But as we saw with the global food crisis of 2008, the increased size and role of financial actors in commodity markets can fuel price increases and spread shortages. During 2008, real food prices reached near-record highs. The commodity price escalation between 2002 and 2008 was the steepest, most pronounced commodity price surge in decades — prices were higher for more commodities and for a longer period of time. The 2008 food price increases closely followed record-breaking prices in the commodity futures markets.

These commodity market price increases did not stay confined to financial markets. Food processing companies, like breakfast cereal manufacturers, ended up competing against giant investment firms on inflated commodities auctions to buy corn and wheat contracts, which drove up grocery prices for consumers. Similarly, during the mortgage crisis, we saw financial instruments like credit default swaps create a system that rewarded speculators to the great detriment of homeowners. Likewise, deepening our reliance on financial instruments to manage our essential resources is a recipe for disaster.
What Is Financialization of Nature?

Financialization can mean different things in different contexts, but generally it means “the increasing role of financial motives, financial markets, financial actors, and financial institutions in the operation of the domestic and international economies.”4 As such, financialization is a way of organizing society that places the financial sector of the economy in a position of primary importance.

The financialization of nature follows upon the commodification, privatization, and marketization of our common resources. Strictly speaking, commodification is the commercialization of something not generally seen as a product. Whereas a widget is a commercial product, water has not traditionally been viewed as a commodity. Commodification turns an inherent value into a market value, enabling it to be bought and sold on a market. Privatization transfers control and management of these commoditized resources from public ownership to private ownership. The commodities can then be priced and a market can be created for them. At this point, financialization acts upon the commodity as an asset and applies various financial instruments to it, such as through a water futures contract or a carbon credit option.

Water, for example, is not a commodity; it is a common resource, access to which each of us has a right.5 In the vision of Willem Buiter, however, water will become the premier commodity. It will be traded in a globally integrated market, just as wheat or oil is today. In order to be traded in this way, water will have to be given a market price, and that price will be dependent on supply and demand, as well as on the influence on the market of speculators looking to make a quick profit.6 At this point, financialization acts upon the commodity as an asset and applies various financial instruments to it, such as through a water futures contract or a carbon credit option.

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The financialization of nature is a means of transferring the stewardship of our common resources to private business interests. It makes the stewardship of those resources secondary to the profits of financial actors, such as banks and hedge funds. To the extent that commodification, privatization, and marketization pave the way for the financialization of nature, they can all be considered a part of the process of financialization.

The Growth of the Finance Sector

Since the economic slowdown of the early 1970s, the financial sector has played an increasingly large role in our economy. The finance sector’s share of domestic corporate profits rose from below 16 percent in the 1970s and 1980s to as high as 41 percent in the decade before the 2008 financial crisis.7 In the wake of the financial crisis, after seeing its profits plummet, the sector is back to accounting for about 33 percent of domestic corporate profits.8

The growth of the finance sector has not been limited to the United States. According to a policy brief published by the United Nations Conference on Trade and Development, “the proportion of national income accruing to the financial sector has increased across all countries and regions.”9 At the same time, the level of debt compared to revenues has increased and there has been an increase in speculation on financial assets.10

As the finance sector grew in size, it also grew in strength. Policies in Washington came to reflect the interests of financial actors. The 1980s saw a push for deregulation. The Reagan administration pursued deregulation of industries ranging from energy companies to banking. The move for deregulation became broadly bipartisan in the 1990s and culminated in the passage of the Gramm-Leach-Bliley Act of 1999, which removed regulations put in place during the Great Depression to protect banks from the hazards of speculation.

At the same time, so-called market-based approaches to regulation became popular among policymakers. In the place of regulatory structures that prohibited certain activities, policymakers began to favor providing economic incentives for promoting or discouraging certain behaviors. Perhaps the most prominent example of this is the push for cap-and-trade schemes. Touted as a market-based solution to disincentivize pollution, it actually sells the right to pollute, given that a company can front the cost to do so.
Both Buiter and Issumo have made clear that it is the goal of the finance sector to develop financial instruments on the ground for these new commodities. If trades on a globalized water market can serve as the basis of water-asset derivatives, as Buiter suggests, then so can trades involving a variety of pollution credits. In other words, these new assets, based on commoditized nature, will work in the financial markets like any other commodity. And, their prices will be subject to the same forces as those commodities.

**Examples of Financialization of Nature**

**Cap-and-Trade**

Cap-and-trade is a radical shift in how environmental regulation works. Traditional environmental regulation relies on permission, prohibition, standard setting and enforcement to meet environmental ends. Regulated sectors need to meet the standard set or face enforcement penalties. Most classic U.S. regulation, including the Clean Air Act, first enacted in 1970, and the Clean Water Act, first enacted in 1972, fits that mold.

In contrast, cap-and-trade attempts to create markets in actual or potential pollution to create an economic incentive to pollute less. Many, but not all, systems also include a cap, a system-wide limit to the amount of pollution that can be emitted. Instead of limiting what an individual plant may emit, each polluter is given an allocation of emissions. If it doesn’t use up that allocation in a year, it may sell those emission allowances to another company that polluted more than its allocation.

Cap-and-trade is commonly proposed by those who oppose simply regulating pollution as a more “free market” approach to environmental problems. The market is used to allocate costs, rather than using the performance-based indicator of meeting a regulated standard. Proposals for cap-and-trade systems range from using them to limit greenhouse gases to using them to control water pollution.

**Trading Water Quality**

In theory, water quality trading, a type of cap-and-trade, reduces pollution of our waters by allowing polluters to buy offsets from other polluters who act to reduce their own pollution. In practice, water quality trading is just a great way, as Delmarva Poultry Industry, Inc. says, “to help farmers earn money while providing polluters with the opportunity to increase their pollution.”

Pollution trading is an attempt to introduce market-based principles to pollution control — an activity that has been achieved historically through strict regulatory oversight of pollutant sources under federal laws like the Clean Water Act and the Clean Air Act. These and other air and water laws are premised on the notion that it is illegal to pollute, and they employ a “technology-driven” effort to force more stringent and more protective discharge standards on polluting industries. In response to these laws, industry has had to develop new means to reduce production advancing their technology. Pollution trading, in contrast, allows polluters to buy and sell from one another the right to pollute our common resources.

The Obama administration has been promoting water quality trading in the Chesapeake Bay watershed. The plan is to establish an interstate market in nitrogen and phosphorous runoff. Once established, the Chesapeake Bay model could then be taken to watersheds throughout the country. In Europe, the European Commission is planning to propose similar water quality trading schemes, as well as water trading, in its Blueprint to Safeguard Europe’s Waters.

**Pricing Water**

In 2009, the Organisation for Economic Co-operation and Development (OECD), an international economic association of wealthy nations, released a report that promoted the use of market-based water pricing reforms to combat water scarcity, address environmental concerns and efficiently allocate water resources. This was another attempt to shoehorn water into a market model that cannot accommodate its unique, life-sustaining qualities and to bring water under what one World Bank water expert calls “the hegemony of the market model.”

But in the United States, household water use constitutes a tiny fraction of total water withdrawals, so any water savings would have little impact on scarcity. Domestic water use was 8 percent of freshwater withdrawals, compared to 40 percent for irrigation, livestock and aquaculture and 52 percent for industrial, commercial, mining and electric utilities in 2005. This means that even a 5 percent increase in agricultural water efficiency could make enough water available to supply a quarter of America’s residential consumers with water.

While unlikely to have much of an effect on household water use, water pricing could pave the way for the integrated water markets that Willem Buiter foresaw. Once residents have been conditioned to view water as a commodity with the aid of water pricing, the marketing of water could become much easier. This process of commodification got started with the introduction of portable bottled water in the 1970s and 1980s. But the pricing of household water would bring all water under market forces.

**Trading the Right to Fish**

When people think of fishing, they probably imagine an independent sea captain and his crew braving the elements in a small vessel to bring a fresh catch to shore and to our plates. But the current focus of global policy for managing our fisheries, called catch shares, is de-
storing the way of life of fishermen and coastal communities. This time-honored trade is being replaced by a privatized system that often leaves the future of our fish, one of our most precious natural resources, in the hands of a small number of larger operations, whose primary goal is often immediate profit rather than sustainable use and long-term conservation.

Catch share programs define the amount of fish that certain fishermen are allowed to catch. Scientists and managers first set the total allowable catch (TAC) of a fishery, which is the amount of fish that all companies and individuals combined are allowed to catch each year. The fishery managers then determine the size of a catch share, generally a percentage of the TAC designated for one individual. For example, one fisherman might receive 2 percent of a 1 million pound TAC of red snapper. This means that the fisherman can catch 20,000 pounds of red snapper for the year. The percentage of TAC a person receives is referred to as their “share” or “quota.” The fishermen are then allowed to trade this quota on the market, buying and selling the right to fish. Catch share programs are based on the idea of maximizing the economic efficiency of the fishery. Unfortunately, this “optimization” or “rationalization” comes at the cost of excluding large numbers of people from the system entirely. As one researcher summarized in 2006, catch share programs “can amount to an unjustified, and highly unpopular, transfer of wealth from the public to specially favored individuals. In practice, many fishermen or entrepreneurs have become inordinately wealthy following the inception of [these] programs,”19 while others have been forced into poverty.

**Need to Protect Common Resources, Not Profits**

The financialization of nature is not about protecting the environment; it is about creating ways for the financial sector to continue to earn high profits. Although the sector has begun to rebound from the financial crisis, taking about 30 percent of domestic corporate profits in 2011, it is still below its pre-crisis levels of profit. By pushing into new areas, promoting the creation of new commodities, and exploiting the real threat of climate change for their own end, financial companies and actors are placing the whole world at risk.

If we let market fundamentalists and industry-funded nonprofits tout market-based mechanisms and a “green economy” as innovative solutions to our resource problems, we ignore proven methods of reducing pollution. Instead, we are simply speculating on nature. These schemes are a smokescreen, giving the appearance of regulation and action while at the same time giving industries carte blanche to continue using and abusing our common resources — and letting the finance sector profit from it.

We cannot afford to bet the health of the environment or our access to water on the Wall Street casino. Instead of gambling with financial actors and markets in nature-based assets, we should rely on regulation of activities that harm the environment and contribute to climate change. Instead of pushing the expansion, integration and financialization of water markets, we should implement and enforce regulations that preserve our essential resources and promote policies that acknowledge water as a human right.

**Endnotes**

7. Analysis of data available at Bureau of Economic Analysis.
10. Ibid.
12. Ibid.