THE TIERRA FEE AND DIVIDEND (TFD) SYSTEM: A BOLD NEXUS PROPOSAL

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INTRODUCTION

- First order, second order and third order linkages in the Nexus narrative—plenary yesterday-UN Global Compact
- The TFD system is presented as bold proposal for integrating first, second and third order linkages
- Its departing point or organizing issue is the looming climate catastrophe—See Planetary Boundaries diagrams on [http://www.bing.com/images/search?q=planetary+boudaries+diagram&go=&qs=n&form=QBIR&pq=&sc=0-0&sp=-1&sk=](http://www.bing.com/images/search?q=planetary+boudaries+diagram&go=&qs=n&form=QBIR&pq=&sc=0-0&sp=-1&sk=)
- Basing the international monetary system on a carbon standard the issues of climate and energy are directly linked while the issues of food and water are indirectly linked via agriculture and industry
- The conceptual, institutional, ethical and strategic dimensions are briefly presented after an exposition of the changing climate and the unstable international monetary system
THE CLIMATE CRISIS

- Need for a drastic approach to the looming catastrophe
- There are at least six identifiable carbon reduction methods and these methods have to be evaluated in terms of being “fast, fair and formidable”
- The Fee & Dividend carbon reduction methodology
  - Rising carbon fee
  - Uniform fee for each of the fossil fuel industries
  - Full dividend of the raised revenue
  - Supporters: Jim Hansen, Bill McKibben and 350.org, democratic leader Chris Van Hollen
CLIMATE JUSTICE

- Earliest demand raised in the 1990s in Latin America, particularly Evo Morales of Bolivia
- The Bolivian conference at Cochabamba in April 2010 and the Declaration of Rights of Mother Earth
- Climate justice and the need for equitable carbon budget—Martin Kohr, Cancun 2011 introduced his 600-600-600 Gt of CO2 mnemonic
  - 600 Gt of CO2e –1850 to 1920
  - 600 Gt of CO2e—1920 to 2000
  - 600 Gt of CO2e is available which is to be distributed fairly, taking into account the historical accumulation of the industrialized countries. The highest emissions per person is ........ , the lowest ...............
SHORTCOMINGS OF THE PRESENT INTERNATIONAL MONETARY SYSTEM (IMS)--1

- Sir Mervyn King, Governor of the Bank of England, who, in February 2011, remarked (in too measured terms): “Global imbalances are a reflection of today’s decentralized international monetary and financial system. All the main players around the world are rationally pursuing their own self interest. But the finance crisis has revealed that what makes sense for each player individually does not always make sense in the aggregate.”

- The world’s premier monetary economist and Nobel economics prize winner Robert Mundell considers the international monetary system a non-system and calls it “criminal”.

06/06/2012
Congo FID Committee
THE INTERNATIONAL MONETARY SYSTEM

- Currency manipulation and speculation, IMF Reform and US Inaction—Patrick Hill, Wash. Post
- Difficulty of international means of exchange with fluctuating exchange rates, bank fees, regulation lead to emergency in 2009 to the virtual currency of Bitcoin
- Three fold popular response to present economic crises
  - Money creation by public sector, not privately-owned banking systems with fractional reserve system
  - Money-based, not debt-based financial system
  - A carbon-based international monetary system
THE INTERNATIONAL MONETARY SYSTEM

Components
- Currencies and reserve currencies
- Exchange rates: fixed or floating
- Balance of payments
- Monetary standard: gold, dollar/gold, fiat, carbon
- Monetary philosophies: apolitical Mishkin, political Erturk

Quality or effectiveness of present system
- Non-system; called criminal by Robert Mundell
- National or regional reserve currencies cause global financial imbalances
- Currency speculation/manipulation and instability

03/4/2014  Nexus II conference
THE SHORTCOMINGS OF THE PRESENT INTERNATIONAL MONETARY SYSTEM

- Unregulated capital flows within an economic system of free market fundamentalism: quantitative easing by US Fed, impact on commodity prices and developing economies
- Currency wars, manipulation and speculation: hedge fund originator George Soros and the 1992 ERM gamble
- Exchange rates volatility: after August 1971 when the Nixon Administration closed the gold window
- An expensive global reserve system: $100 billion annual bill for mostly developing countries
- No standard: non-system, criminal (Mundell)
SHORTCOMINGS OF PRESENT IMS: CAPITAL FLOWS

- Capital flows and quantitative easing by USA
  - BRICS March 2012 meeting: Dilma Rousseff, Brazil’s president, accused western countries of causing a “monetary tsunami” by adopting aggressive expansionist policies such as low interest rates, which are making emerging economies less competitive globally. “This crisis started in the developed world,” Ms Rousseff said. “It will not be overcome simply through measures of austerity, fiscal consolidations and depreciation of [labor costs], let alone through quantitative easing policies that have triggered what can only be described as a monetary tsunami, have led to a currency war and have introduced new and perverse forms of protectionism in the world.”
SHORTCOMINGS OF THE IMS: CURRENCY WARS

- US-China currency wars, salient after 2008
- US-Brazil currency wars, salient after 2010
- Rousseff seeks US support in ‘currency war’
  - The Brazilian president, who has accused big western powers of loose monetary policy, has taken her call for action to the White House - Apr 9 2012
- Brazil flexes its muscle to shield industry
  - A clash with Mexico, tight rules over oil, higher import taxes and currency controls suggest Brazil is rekindling protectionist instincts - Mar 19 2012
- Brazil vows to protect manufacturing
  - ‘We are not going to just sit by and watch while other countries devalue their currencies to give them a competitive advantage’ - Mar 16 2012
- Brazil launches fresh ‘currency war’ offensive
  - Moves to suppress an appreciation of the local currency range from taxes to interest rate cuts, despite the real being relatively weak - Mar 15 2012
- Brazil extends tax on foreign loans
  - Flow of overseas cash, blamed for overvaluation of real, sees government step up currency war in effort to boost competitiveness - Mar 12 2012
ROLE OF GOVERNMENTS IN MANAGING MONEY

- Free markets vs regulation: a main debate domestically and globally
- Money creation by public sector: Lincoln Senate document of 1865
- North Dakota’s public bank and other countries that have Social Credit political parties, such as Alberta in Canada: Public Banking Institute and 14 states with bills in various phases of development; battle in Vermont.
- Local money: local exchange trading schemes (LETS), supplementary currencies, timebanks, local bonds, credit unions. Op-Ed piece to the NY Times on March 2: Bitcoin and future monetary arrangements
- Globally: IMF/WB, BIS, Financial Stability Board, but no Global Central Bank with power to create money and liquidity
THIRD ORDER LINKAGES OF INT’L SYSTEMS

- Based upon the first and second order linkages, i.e. societies dealing with the integration of food, energy, climate, water and governments dealing with economic infrastructure, social and ecological policies and money systems.

- The main global systems are the monetary, financial, economic and commercial systems.

- The international monetary system acting as glue binding monetary, financial, economic and commercial systems together; it is the linchpin or pivot of the other systems.

- The international monetary system is fragmented since the IMF is a fund and the regional monetary unions have not yet been pushed to integrate into one international monetary system with a global central bank.
NEED FOR AN EXPLICIT DEVELOPMENT PHILOSOPHY

- Transformational change, in particular, demands making one’s assumptions, values explicit; special chapter concluding part 1 of the book; values are anterior to GTIs (Goals are set based on values, explicit or implicit)
- Contextual sustainability framework
  - Value-based with organizing principle of ecological integrity, similar to Earth Charter’s. The SC (sustainable communities) Lens article in Journal of Peace Education, Spring 2015
  - Sustainability economics
    - Internalization of social and ecological costs—triple bottom line or three pillars of sustainable development—yesterday’s corporate business section shows the decline of neo-classical economics (Kyle Button of Global Clean Tech Group of Wells Fargo –330k and GIF participant)
    - Frugal trade
- Monetary justice as guiding principle
  - Includes different types of social and ecological justices, but also the right to a transformed international monetary system that would make the monetary, financial, economic and commercial systems work properly
CONTEXTUAL SUSTAINABILITY FRAMEWORK
ECOLOGICAL INTEGRITY

- Nature is not a thing, a source of resources. Nature is a system, a home, and a community of living and interdependent beings.
- Nature has rules that govern its integrity, interrelationships, reproduction and transformation.
- States and society are not recognizing, respecting and making sure that the rules of nature prevail
MONETARY JUSTICE --1

- Social justice
  - Procedural and intergenerational
- Ecological justice
- Integrated or monetary justice
  - Basic to the Contextual sustainability Framework
  - Related to the Earth Charter and the Universal Declaration of the Rights of Mother Earth—Cochabamba April 2010
  - Expresses the human right to a low carbon and climate-resilient development model within socially and ecologically just societies
MONETARY JUSTICE—2

- An international monetary system that
  - includes social justice
    - Not ruled by G7/8/20 but G192 of the UN
  - includes ecological justice
    - Climate justice
    - Frugal trade
  - Includes an integrated vision of
    - Values such as the Earth Charter
    - Low carbon and climate-resilient development
Proposed Tierra Fee & Dividend system contributes to monetary justice by

- Using the more equitable Tierra Fee & Dividend carbon reduction method over cap-and-trade
- Every person in global North and South is treated equally in his/her carbon responsibility
- Introducing a carbon-based monetary standard that promotes climate justice
- Making governments regulators and drivers, being solely in charge of money creation by withdrawal of fractional reserve banking from privately-owned banking systems, leading to more equal distribution of power, credit and wealth and progress w/o poverty in the sense of Henry George
But Pius XI’ 1931 Quadragesimo Annus (40 years after Rerum Novarum) had real teeth. He wrote:

“(105)…it is obvious that not only is wealth concentrated in our times but an immense power and despotic economic dictatorship is consolidated in the hands of the few…”

“(106) This dictatorship is being most forcibly exercised by those who since they hold the money and completely control it, control credit also and rule the lending of money. Hence they regulate the flow…of the life-blood whereby the entire economic system lives, and have so firmly in their grasp the soul…of economic life that no one can breathe against their will”

And he recommended real legislative remedies not mere talk. (See AMI website)
In 1942, as bombs were falling and hundreds of thousands were dying, the Archbishop of Canterbury, William Temple, called for the nationalization of the private Bank of England, condemning its monetary operations:

“THE RESULT IS TO MAKE INTO THE MASTER WHAT OUGHT TO BE THE SERVANT.”

One of Britain’s first postwar acts was to nationalize the Bank of England in 1946. (See Chapter 20/ Lost Science of Money)
EPE/NPA Course on Monetary Justice

Monetary Justice.

Questions being explored in this course are the following. What does monetary justice mean on the national, regional and global levels? Is it different from economic and financial justice? What are the monetary injustices, particularly on the global level? What can be done in reforming or transforming the international monetary system to achieve social and ecological peace? Could basing the international monetary system on a carbon standard to combat the climate crisis be a realistic means to achieve the purpose of monetary peace?
NOMENCLATURE OF THE TIERRA CARBON-BASED INTERNATIONAL MONETARY SYSTEM

- **The Tierra system**, labeled after its unit of account of the Tierra in its monetary architecture

- **The Tierra Solution**, labeled after the unit of account of the Tierra and considered a global governance solution by resolving the climate crisis through monetary transformation

- **The Tierra Fee & Dividend system (TFD)** is named after the Fee & Dividend as proposed by James Hansen and Bill McKibben; this carbon reduction methodology is chosen because, unlike cap-and-trade and other methods, it is fast, fair and formidable.
A TRANSFORMED INTERNATIONAL MONETARY SYSTEM SUCH AS THE TFD

Components

- Carbon-based monetary standard with Tierra as unit of account—Bitcoin’s legacy according to Robert Shiller. NYTimes Op-ED piece—transformational financing.
- Two options: National Currencies pegged to the Tierra or a common global currency of the Tierra
- No reserve currencies needed anymore and currency speculation and manipulation are not profitable anymore
- Exchange rates are fixed
- Balance of payments includes a nation’s carbon account
- Monetary principles
  - The famous black box
CARBON-BASED INTERNATIONAL MONETARY SYSTEM’S COMPONENTS-1

- **Carbon standard:**
  - A specific tonnage of CO2e per person
  - the Tierra as unit of account

- **Approximation of a nation’s decarbonization level**
  - Environmental Performance Index of Columbia/Yale universities
  - Many other global indexes in sustainability, that can be used in developing an approximation formula to determine a nation’s score on the carbon or decarbonization index

Fully explained in chapter 7 of *The Tierra Solution: Resolving the Climate Crisis through Monetary Transformation*, Cosimo Books, New York, 2012
CURRENCY OPTIONS

Two options: 1. National currencies pegged to the unit of account of the transformed international monetary system, i.e. the Tierra; 2. A common global currency of the Tierra together with a Global Central Bank

Present reserve currencies such as the U.S. dollar, euro, pound and yen evolved into a basket of currencies or SDRs and from there to the Tierra pegged national currencies or the Tierra world currency

No need anymore for a global reserve system that costs developing nations around $100 billion annually

Currency manipulation by states and currency speculation by financial institutions drastically reduced
EXCHANGE RATES

- Fixed within a small band (snake) of nation’s currency value in terms of the Tierra unit of account
- Convertibility of currencies makes currency speculation non-profitable and saves billions of dollars in not needing forward currency contracts
- Nations cannot engage in currency manipulation, e.g. keeping the value of their currencies low for export gains, because all currencies are fixed and convertible
- Exchange rates not necessary anymore in the case of the second option: the world currency of the Tierra
MODIFIED OR TIERRA BALANCE OF PAYMENTS

- Contains both the financial and ecological (climate) accounts of nations showing their credits and debts in both areas
- Considerable conversion of debts between financial creditors and ecological creditors can take place because they can settle their accounts by negotiating bi-lateral conversions
GLOBAL CENTRAL BANK

- Central feature of the Tierra monetary architecture
- Unlike the IMF which is a Fund the GCB is a bank that creates money and credit; it is the sole money creator because the privately-owned banking systems are not engaged in fractional reserve banking anymore
- The GCB also administers the financial and ecological (im)balances of the nations in maintaining the Tierra balance of payments mechanism
- The GCB also supervises and regulates the global financial system; it also has a taxation department, particularly directed towards tax evasion of TNCs if taxation is deemed necessary at all
- History of GCB proposals: John Stuart Mill in the 19th century, McChesney in the 20th century, Paul Volcker in the 21st century
- Why no GCB? No proper theory of international development and integrated global governance?
MONETARY TRANSFORMATION—WHY

NO MONETARY TRANSFORMATION OR MONETARY JUSTICE IS POSSIBLE WITHOUT A MONETARY STANDARD AND A MONETARY VISION

“The continued expansion of free trade, the increased integration of financial markets and the advent of electronic commerce are all working to bring about the need for an international monetary standard---a global unit of account....An important question is whether this process of monetary evolution will be intelligently directed or whether it will simply be driven by events....In any event, it is imperative that the United States begin to develop and put forward its own global monetary vision for the future.

Economist Judy Shelton, US Congress, May 21, 1999
**Monetary transformation and justice—why 2**

- **Economic reasons for the Tierra Fee & Dividend system**
  - Monetary system as glue of the financial, economic and commercial systems does not work: currency manipulation and speculation, costly global reserve system, no standard, etc.
  - Financial reasons
    - Fractional reserve banking privilege removed from the privately-owned banking systems, a main cause of the Great Recession, the Great Depression and other financial crises
  - Commercial reasons
    - Frugal trade promotes ecological justice

- **Ecological reasons for the TFD**
  - The Fee & Dividend approach to GHG reduction is fast, formidable and fair
MONETARY TRANSFORMATION/JUSTICE- WHY 3

- Political reasons for the TFD
  - changes the present political economy which still enriches the few, impoverishes the many and imperils species and planet
  - Distributes monetary power more equitably

- Cultural reasons for the TFD
  - Contributes to a culture of social and ecological justice
  - Makes cultures in the global North and South direct their attention low carbon and climate-resilient development
MONETARY TRANSFORMATION/JUSTICE-
HOW 1

- Going beyond monetary reform
  - Build on the best monetary reforms
    - Reserve currencies proposals by UNDESA and UNCTAD
    - UN Stiglitz Commission of 2008-9
  - Demand a more socially and ecologically just international monetary system
Pursuing transformational change

- Rethinking basics, particularly about money, credit, debt and wealth. Cf. www.monetary.org
- Supporting the TFD or similar proposals
- Removal of money creation function from privately-owned banking systems, following the Chicago Plan of the 1930s and present proposals of Robertson, Brown, Zarlenga, all of which are based on governments spending credit into circulation without becoming indebted to privately-owned banking systems. Cf. Henry George, Benjamin Franklin et al.
MONETARY TRANSFORMATION/JUSTICE- HOW 3

- International Institute of Monetary Transformation
  - Emerged from Earth and Peace Education Associates (EPE) and its contextual sustainability framework
  - The June 2012 publication of *The Tierra Solution: Resolving the Climate Crisis through Monetary Transformation*
  - Coordination of Tierra FD Working Groups
  - Many activities on [www.timun.net](http://www.timun.net)
Evaluating the IMF


- Transformation of the International Monetary System Needed Not Reform on the Fringes of the IMF

- Updated Return of the Keynes’ Bancor and International Clearing Union by Basing It on a Carbon Standard Rather Than Gold or SDRS

- BRICS Nations Threatening IMF/WB During Their March 2012 Meeting
STRATEGY FOR THE TSN-1

- Top-down: Un Commission on Monetary Transformation, Climate Change and Sustainable Development, leading to an UN Global Governance Conference where monetary justice is considered as the guiding principle for a new world order

- Bottom-up:
  - National TFD working groups or sectoral TFD working groups
  - Peoples Sustainability Treaty on Monetary Transformation proposed at Rio+20.
  - Challenges of Nexus participants, particularly considering joining/starting a TFD group and explore first, second and third order linkages and their dynamics
THE PEOPLES’ SUSTAINABILITY TREATIES

TIMELINE - Peoples Sustainability Treaties

- **PHASE I:** Pre-Rio+20
  - January-May 2012
  - Pre-Rio+20

- **PHASE II:** Rio+20 Summit
  - June 2012
  - Rio+20 Summit

- **PHASE III:** Post-Rio+20
  - July 1 - December 31
  - Advancing a Global Movement

### 1st March - 31st March: Organizing Treaties Circle, Organizing Treaty Dialogues & Public Meetings, Formulation of 1st drafts, and Media and Advocacy Campaign

### 1st April - 31st May: Public Comments, Editing Treaties, Formulation of Declaration & Action Plan

### 1-12 June: Release of the Treaties & Pre-Summit Advocacy Campaign

### Prep.com

#### Sandwich Days
- 13
- 14
- 15
- 16
- 17
- 18
- 19

### Official UNCG20
- 20
- 21
- 22

### 22 June: Rio+20 PLATFORM (Joint Public Event)
- Theme: Advancing a Global Citizens Movement [convened by TWC]

### 23-30 June: Follow-up action and planning post Rio+20 action, Reporting Results, and Media Campaign

Nexus II conference

03/4/2014
RATIONALE FOR TRANSFORMATIONAL FINANCE

- Financing for development, be it regular or innovative financing such as FFT falls far short of its targets and needs, let alone financing of development and climate
- Financing based upon scarcity (debt-based financial system) is the real systemic culprit; a money-based financial system based upon plenitude has no limits
- Financing of development is not realistic if financing for climate mitigation and adaptation is not included
- Limit to financing is the disciplined imagination of nations that make the GCB create the necessary credit and liquidity for effective policies, programs and projects
MONEY CREATION: A HISTORY

- Public banking: It is well known that Philadelphia was the birthplace of the U.S. Constitution and American democracy. Less well known is that it was also the birthplace of public banking in America. The Philadelphia Quakers originated a banking model involving government-issued money lent to farmers. The profits returned to the government and the people in a sustainable feedback loop that prospered the local economy.
- North Dakota
- Public Banking Institute
MONETARY BARN RAISING

- a tradition of “barn raising”, whereby neighbors all band together to build barns. Barns were large, costly, and hard to build, but absolutely essential for farming. The lesson is simple: together, the community can accomplish what the individual cannot, and everybody benefits. We should think of pooling our global resources in precisely these terms.
FINANCING THE NEXUS

- Applying notion of transformational financing based upon a new international monetary system with a global central bank that coordinates money creation, supervises a 100% reserve privately owned banking systems and maintains a credit as opposed debt-based financial system.

- A way to promote this new global monetary/financial system is the creation of public state bank like the one in North Dakota since the 1930s and the one that is being born in Vermont.

- Humans created institutions and humans can uncreated those institutions.
STRATEGY FOR THE TSN AT THE NEX CONFERENCE

- Supporting the addition to the Declaration of third and second order linkages to the first order linkages in energy, food, climate and water
- Giving electronic feedback on the Conference circular entitled “A BOLD NEXUS PROPOSAL: A fully integrated system of first, second and third order linkages” and on the notion of Transformational Financing
- Consider signing the international petition to have the UN Department of Economic and Social Administration DESA coordinate research on the TFD with its integrated institutional framework and other alternative systems for coping with the climate threat and living within the planet’s boundaries at http://www.change.org/petitions (in preparation)
Conclusion

- Prospects—Ghandi’s view—WWF slide of theory of change from internal to governmental level.
- Einstein on problem solving:
  - “No problem can be solved from the same level of consciousness that created it.”
- Needed are: boldness and vision
  - “Whatever you can do or imagine you can, do it. Boldness has power, genius and magic in it” Johann Wolfgang von Goethe
  - “Without vision, people perish.” Proverbs 28:19