

INSNET SERIES ON A TRANSFORMED INTERNATIONAL MONETARY SYSTEM
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Six 1 PAGE ARTICLES to be published sequentially, starting on and to be continued on the following dates.....


1. *INTRODUCING the Terra International Monetary Union or TIMU system* Frans C. Verhagen, M.Div., M.I.A., Ph.D., sustainability sociologist International Institute of Monetary Transformation.  www.timun.net
New York City March 2009

There is an enormous amount of pain and suffering of millions of humans and other sentient fellow creatures on account of the synchronous crises in the global financial system and in the change of the climate. This unnecessary suffering will continue to get worse in an international economic system that still enriches the few, impoverishes the many and imperils the planet.

The first phase in resolving these crises is to recognize them for what they are and what they do. While the consequences of these crises have become clear from the thousands of reports that deal with these crises, what the nature of these crises is has not become clear, particularly its causation in all its complexity. So, the second phase is an unbiased analysis in which analysts make explicit their values, perspectives, biases. The third phase builds on the first two: developing policies and plan of action based upon the best integrated thinking humanity has to offer. The final phase is to work for its implementation. It takes courage to take a position rather than be an undecided moderate who can go either way or no way.

This series of six short articles presents a solution that does not reform, but transforms the present world order. It is a “global New Deal” that is based upon the values of equity and sustainability, the only values that can lead to stability in the monetary, financial, economic systems.

It is the International Institute of Monetary Transformation’s position that this needed monetary and financial transformation cannot take place within the present structure of the IMF, World Bank, WTO, and the lesser known Bank of International Settlements (BIS). Though they are trying to assert themselves and come up with reformist proposals, they will have to move over for a lasting equitable, sustainable, and, therefore, stable monetary, financial, trading and economic system to take place.

2. *SOLVING the economic and climatological crises simultaneously, not sequentially*
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In doing the research for my forthcoming book TIMU: The Transformative Approach to Monetarily Solve the Economic Crisis by Solving the Climate Crisis I have observed that many people of all kinds of backgrounds are very hesitant to think that both the economic and climatological crises should be tackled simultaneously. Both crises are of such magnitude that they can only be tackled sequentially is the reasoning.

I was most encouraged a couple of days ago when two of the world's most outstanding economists, Joseph Stiglitz and Nicholas Stern, published the following statement when they were meeting in Washington D.C. on March 2. They stated: "We face two crises: a deep [global financial crisis](#), caused by inadequate management of risk in the financial sector; and an even deeper climate crisis, the effects of which may seem more distant but will be determined by the actions we take now. The scale of risk from climate change is altogether of a different and greater magnitude, as are the consequences of mismanaging or ignoring it. (Underlining is mine.) The US, in particular, has a window of opportunity to act on the financial crisis and, at the same time, lay the foundations for a new wave of growth based on the technologies for a low-carbon economy. President Barack Obama, in his speech to Congress and budget last week, explained that we need to address both of these challenges, and outlined a broad approach. US leadership could generate a powerful response from across the world, making possible an agreement at the [United Nations climate change conference](#) in Copenhagen in December on a scale necessary to manage the risks involved."

Given that the two economists believe the "scale of risk from climate change is altogether of a different and greater magnitude" than the risk of the economic meltdown it stands to reason that we look at solving the climate crisis first if we can and then consider the connections with the economic crisis. It is the institutional nexus of binding the resolution of both crises together that is being proposed in the Terra Solution and its monetary architecture.

Thus, among climate community activists and scholars, discussing the pros and cons of carbon reduction methodologies of cap&trade and the carbon tax I have been trying to introduce the third option: the Terra international reserve currency which is based on carbon emission permits which form part of a nation's balance of payments. Like the other two methods the Terra carbon reduction option also reduces carbon emissions. However, the Terra option connects with the economic crisis because the Terra international reserve currency represents real money that will flow from ecological debtor countries in the global North to ecological creditor countries in the global South. It would institutionally guarantee funding for development and pay for mitigation and adjustment costs of the climate crisis in the global South.

When the two economists above pointed to the inadequate (should it not be grievous?) mismanagement of the banking sector as the main cause of the economic crisis, they and almost everyone else fail to mention that in almost all countries the banking system is privately owned. Thus, in the USA, the Federal Reserve Bank with its 12 regional banks is owned by private banks which have managed, since 1913, to be legally in the business of money creation which is the duty, right and responsibility of the public sector. They create money by the fractional reserve system which can multiply a deposit of \$1000 ten times. In the discussions about the banking crisis in the USA, Europe and elsewhere (not in China, India) bailouts and even temporary nationalization are seen as solutions. However, what is needed is a reversal of privately-owned banking systems to publicly owned banking systems, including central banks such as the US Federal Reserve Bank. A most important book in this regard is EH Brown's [The Web of Debt. The Shocking Truth About Our Money System and How We Can Break Free](#). Benjamin Franklin, President Lincoln, political parties in the

1890s and even President Kennedy for some time managed to have the public sector implementing its constitutional right of coinage.

3. BUILDING *confidence*

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Trust and confidence are the socio-psychological attributes that everyone considers to be essential to get the local and global economies going. How do you build them if the population does not have confidence in their politicians, let alone their banking executives?

No confidence building can take place without political and economic leaders basing their policies on equity and sustainability. People have to see and experience fairness. They have to see and experience social, economic and ecological sustainability rather than some short-term measures and rhetoric.

How can that be done? In last instance it can and has to be done by implementing values that humanity at this juncture in its history considers essential. Which are those values? We do have the Universal Declaration of Human Rights and, recently, the UN High Commissioner of Human Rights and a Human Rights Council. We also have a 21st century successor of the Universal Declaration of Human Rights in the emerging Earth Charter which integrates the social and ecological values within a framework of the community of life. Humans are members of this Earth Community and they are not necessarily the most important ones in maintaining the Earth's processes of the flowing of energy, the cycling of matter and the webbing of life. Without microbes there would not be life on planet Earth!

It is the primacy of values and principles over methods that should guide societies in building confidence and trust. This is very well-expressed by 19th century American transcendentalist Ralph Waldo Emerson when he wrote:


“As to methods there may be a million and then some, but principles are few. The man who grasps principles can successfully select his own methods. The man who tries methods, ignoring principles, is sure to have trouble.”

Finally, building confidence and trust within the value context described above and taking measures such as the reversal of privately-owned banking systems to publicly owned banking systems, including central banks such as the US Federal Reserve Bank is to be pursued within the largest historical challenge of the sustainability revolution. What that means and the most important question in that regard is succinctly expressed by the first US EPA Administrator in the early 1970s.

“Can we move nations and people in the direction of sustainability? Such a move would be a modification of society comparable in scale to only two other changes: the Agricultural Revolution of the late Neolithic, and the Industrial Revolution of the past two centuries. These revolutions were gradual, spontaneous, and largely unconscious. This one will have to be a fully conscious operation, guided by the foresight that science can provide. If we actually do it, the undertaking will be absolutely unique in humanity's stay on Earth.”

William D. Ruckelshaus, Head of the U.S. Environmental Protection Agency, 1970-73

4. PRESENTING *the Terra solution*


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Terra (Latin for Earth) is the name that I have given to the new international reserve currency that is based, not upon gold, nails, cowries or a basket of major currencies or commodities, but on carbon emissions permits or CEPs. These CEPs would be allocated on an equal basis to all adults on the planet—perhaps we should include youngsters because they sometimes have a heavy carbon footprint also—using the methodology of Cap and Share, www.capandshare.org. The targets of carbon reduction will determine the amount of CEPs each adult receives; the carbon price on the world market will determine the value of the CEPs.

The Terra solution was raised publicly on January 15 during the first session of the UN Department of Information (DPI) where both the senior advisor, Dr. Michael Clark, and Ambassador Sofia Clark were representing the UN General Assembly President's Commission on Monetary and Financial Crises to the NGO community at UN Headquarters. In response to my comment that followed a question of how the Committee was dealing with the climate crisis and that suggested that member states establish an international reserve currency based upon carbon emissions and which would be made part of a nation's balance of payments, Dr. Clark reacted very positively by calling the suggestion “brilliant”. Later on during the session he referred back to it as an example of how the NGO community can contribute to the Commission's work.

There is general agreement that the new international reserve currency is not to be bound to a nation such as the USA or to a region such as the EU. Many suggestions are being made to peg the currency to non-emission standards. From John Maynard Keynes in 1944 with his “bancor” to several others in the sixties and seventies, to Joseph Stiglitz who has for some time been suggesting a “global greenback” for that purpose. Irish economist Richard Douthwaite and I are among the main scholars/activists who are advocating an emission based currency unit. It is understandable that earlier scientists and statesmen have not chosen to base their currency unit on emissions, because it is only in the last decade or so that the climate crisis has been hitting home.

5. PRESENTING *the TIMU architecture*

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The Terra international reserve currency is the basis of the Terra International Monetary Union—the TIMU system. Each nation will have its carbon account become a line in their balance of payments which will be administered by the proposed World Central Bank (WCB), roughly in the same way as the European Central Bank does for the European

Monetary Union. This bank with a democratically chosen Board of Governors will have two additional functions, one dealing with credit and the other with liquidity. It will monitor credit creation around the world, so that a credit crisis of the present scope cannot occur again. The Bank will also monitor hedge funds and promote transparency and accountability in the global financial services sector, seeing to it that risks are combined with responsibilities. It will promote the abolition of offshore banking and the transition of privately-owned banking systems to publicly owned banking systems. The bank will also engage in making available extra liquidity, somewhat in the same way as the Special Drawing Rights of the old International Monetary Fund.

Though the proposed World Central Bank does not tell the nations who have signed and ratified the TIMU Treaty how to deal with their credit creation institutions, it will advocate the abolishment of fractional banking. James Robertson of the New Economics Foundation has testified to that effect to the UK government—the host of the G20 Summit on April 2 in London. He thinks, like me, that the present privatized banking system operates on two conflicting goals: money creation and at the same time competing with one another. No wonder that the most “imaginative” bankers go into the nirvana of impossible derivatives!

Besides fixed exchange rates that are based on the Terra international reserve currency the TIMU architecture has as its sixth component a bio-regional economics and frugal trade approach. What this means is that living well within one’s own region as much as possible becomes an economic objective rather than building an export-oriented economy with its concomitant consequences of outsourcing and global corporate control. The Washington Consensus with its “unholy trinity” of the IMF, the World Bank and WTO is disappearing and as Mr. Gordon Brown stated in his address to a Joint Session of the US Congress on March 4, no ideological barriers are to stand in the way to find the proper solution. Though he mentioned the challenge of the climate crisis he did not mention, in his address and elsewhere in recent days, using the resolution of the climate crisis as a way to resolve the economic crisis. Much work has to be done particularly by civil society to make that happen as we will see in the final article on mobilizing for the Terra solution and its TIMU architecture.

6. MOBILIZING *for the TIMU international monetary system*

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The year 2009 may become an axial or pivotal year in the history of humankind and of the Earth. Decisions that are going to be made at the G20 Summit in London on April 2, the UN Negotiating Conference in early June and the UNFCCC Conference of the Parties in Copenhagen in December are going to set the direction for the next couple of decades and, perhaps, for this century. They are going to contribute to or delay the major historic challenge of the sustainability revolution that was described in article 3 of this INSnet series. They will determine the fate of millions of people who are suffering through the economic recession and deepening climate crisis.

A mass movement of enlightened government, business and civil society individuals and organizations is needed to make transformational changes; simply reforming present

structures is not enough. The 300 year old privately owned banking systems have to be subjected to global scrutiny in a wide ranging public debate. It is not only governments and business that have to engage in transformation, it is also civil society and, in last instance, every individual person. I have suggested to one of America's best radio programs, Democracy Now, that they take the initiative in the USA in organizing this public debate, because these monetary and financial decisions are key decisions in which participatory decision-making is to be key. Technical resources for this mobilization can be found in websites such as <http://www.neweconomics.org> where former governmental monetary planner Mr. James Robertson's testimony to Mr. Gordon Brown can be found about removing fractional banking and the establishment of a non-national international reserve currency, www.ethicalmarkets.com where economist Hazel Henderson has a column on global economic reform, www.timun.net where you can also find a two-fold petition to this effect besides much of the extended information that underlies this short series. An appendix of Resources will be part of my forthcoming book entitled—TIMU: The Transformative Approach to Monetarily Solve the Economic Crisis by Solving the Climate Crisis, to be published this summer by Cosimo Publishing.

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“Action does not spring from information, but a readiness for responsibility.”

Dietrich Bonhoeffer.