

POLICY BRIEF  
THE CLIMATE CRISIS

CARBON REDUCTION METHODOLOGIES COMPARED

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*“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.”*

Ralph Waldo Emerson

There are two widely discussed methodologies, i.e. cap-and-trade and carbon tax. The advantages and disadvantages of each are highlighted and a clear winner is still off in the future. Cap-and-trade seems to take the upper hand, given that it is being tried in Europe and given that it is the Obama Administration’s present choice.

A third option or methodology is possible and, perhaps, the most feasible, particularly if one takes the global perspective to the climate crisis. It is the option of the carbon-based international reserve currency, called the Terra (Latin for Earth). The Terra option is part of the Terra International Monetary Union or TIMU architecture for a transformed international monetary system.

All three methodologies have in common that they want to reduce carbon emissions and, that, in last instance, people or businesses are going to be taxed for their carbon footprint. Those with large carbon footprints pay more; those with a smaller carbon footprint pay less to their nation’s Terra Administrative Boards. They, in turn, enter the national carbon credit or debit in their balance of payments.

Most important in deciding the most feasible option among the three methodologies is to be clear about the principles for that choice. As the Emerson quote above indicates, principles become before methods. Once principles are agreed upon, the selection of methods becomes relatively easy. Like in all matters of conflict, the often hidden values are more important to be made explicit than the choices of technical means to resolve them.

On February 19 an interesting conference call was organized by the Progressive Democrats of America. The cap-and-trade side was represented by the Natural Resources

Defense Council (NRDC) and the carbon tax side by the Carbon Tax Center. The following principles seem to have been established by both presenters.

Any carbon reduction system should foster **stability and predictability**, so that business can plan. The cap-and-trade proponents hold that their planning horizon is some forty years while the Carbon Tax proponents only determine their tax on an annual or biannual basis. The latter argue that markets fluctuate, particularly in commodities as have seen in price of oil, stocks, and pork bellies. So, each side believes their methodology produces more stability and predictability.

A carbon reduction methodology should be tax neutral and not be regressive. So, it should tend to possess **revenue neutrality**.

**Rapid implementation and simplicity** is a third principle to be pursued. Carbon tax proponents of the Carbon Tax Center and other groups believe that their system scores highly on this principle, pointing to the fact that it took five years for the Northeast cap-and-trade treaty (RGGI) to be negotiated while it only included power plants.

**Prevention of gaming** is another objective that is easier to do in the carbon tax system.

**International transferability** is a principle that the carbon tax proponents emphasize, because a “price signal based on currency rather than on quantity is better suited for setting a uniform standard that holds all nations accountable.”

There are at least four areas in which both carbon reduction methodologies are weak and in which the third methodology of the carbon-based international reserve currency of the Terra is strong.

First, both carbon reduction methodologies are **not globally oriented**; they are directed towards a region or a nation or groups of nations.

Secondly, they only deal with the climate crisis and they are **not integrated with the economic crisis**, the resolution of which cannot be divorced from the resolution of the climate crisis. The latter’s economic costs have to be simultaneously addressed if we want to construct an equitable, sustainable and, therefore, stable economic system.

Thirdly, they are **too far removed from the individual** who is not challenged to make the profound changes in life styles, particularly in the global North.

Fourthly, the two carbon reduction methodologies are **weak on global equity**, ignoring the historical context of the causation of the climate crisis, i.e. industrialization in the global North that did not internalize its social and environmental costs.

These four weaknesses in the present carbon reduction methodologies are interconnected. Because they mostly originate in the industrialized North, they tend to adopt regional approaches rather than a global one. Because of this orientation, the global ethical

dimension of the climate crisis and even the economic crisis are not made part of the principles of a global, effective, stable carbon reduction methodology. It is only through equity and sustainability that a workable and lasting carbon reduction methodology can be developed.

It is the opinion of the International Institute of Monetary Transformation that the two carbon reduction methodologies are preliminary phases for the ultimate one that builds into the world's monetary, financial and economic systems a carbon reduction methodology that is equitable, sustainable, and, therefore, stable. It would be impervious to gaming, because it depends, in final analysis, on the behavior of the individual in the global North and South.

How can this Terra carbon reduction methodology become a reality?

It can become a reality if nations decide to start discussing its potential in resolving both the economic and climatological crises simultaneously. This could start with the G20 nations at their Summit in London on April 2 by deciding to establish a Commission which is to evaluate its pros and cons of the Terra solution with its TIMU Architecture. Its report should be due in one month, so that the report can be one of the major inputs into G192 negotiations at the UN at the end of May which is being coordinated by the UN General Assembly President's Commission on Monetary and Financial Crises. Its senior advisor has publicly made a very positive statement on the introduction of a carbon-based international reserve currency that would become part of a nation's carbon account in its balance of payments. These negotiations will be part of the crucial Copenhagen conference in December. The worse the economic crisis gets, the more long-term solutions are being looked into. Thus the Terra Solution with its International Monetary Union (TIMU) Architecture which would transform the international monetary system would become a realistic option.

How the Obama Administration is going to deal with the climate crisis and whether it is going to integrate it with the global economic crisis are questions that each US and global citizen can ask [www.whitehouse.gov](http://www.whitehouse.gov) about. Personally, I posed the following question there. "How is the Obama Administration going to deal with the climate crisis? Is it going to use the methodology of cap and trade, carbon tax or carbon based new international reserve currency? While the first two methodologies are widely discussed, the third one is new and is part of the Terra International Monetary Union or TIMU architecture developed by International Institute of Monetary Transformation. [www.timun.net](http://www.timun.net).

Finally, let me elaborate a little further on the Terra solution or the Terra carbon reduction methodology by placing it in the context of its TIMU architecture.

The *new international reserve currency* of the Terra which is based upon carbon emissions permits and which are allocated following the Cap and Share methodology is to function as a means of international exchange, a store of value and the accounting unit of carbon credits and debits between nations.

Treaty nations will use a *modified balance of payments* schedule where carbon balances in the form of Terras are added to the many economic account lines in their current and capital flows accounts, so that both their economic and climatological balances are integrated in one place and considered of equal financial value. In order to avoid comingling the Terra currency with the national and other local currencies and local exchange trading systems (LETS) each treaty state will establish an independent Terra Administrative Board that administers the carbon based international currency. Much of the Treaty content can be based upon the FAESTA Draft of the Noordwijk aan Zee Treaty of 2000, organized by Ode Magazine with the assistance of Irish economist Richard Douthwaite and British artist Aubrey Meyer of Contraction and Convergence fame.

The *World Central Bank* (WCB) like a global European Central Bank carries out its administrative, monitoring and credit creation functions under the governance of the treaty nations. Though the treaty nations surrender some substantial sovereignty, the WCB is not a world government. It would be part of the UN system roughly in the same way the IMF is affiliated with the UN today. Some of the activities of the IMF can be transferred to the WCB, but not its weighted decision making, its subscription or capital structure and other elements. The same counts for the World Bank.

A fourth major component of the TIMU system is its emphasis on *bioregional economics*. The present economic crisis has clearly shown that an export-oriented economy, particularly by developing nations to gain foreign exchange to pay for their debts and often to buy luxury items for their elites, is not workable. Even industrialized nations such as the USA and Germany are suffering huge decline in exports. Thus, placing priority on sustainable bioregional economies with a reduction of international trade is to be recommended. On account of the climate crisis frugal trade with a reduction in food, goods and services miles is to be pursued besides fair and free trade.

In conclusion, these times of severe economic and climatological crises demand an overhaul, a revamping, and a transformation of our monetary, financial, economic systems which still enrich the few, impoverish the many and imperil the planet. Starting with the transformation of the basic monetary system, humanity will be able to overhaul its financial system where the money creation function is reversed back to the public sector from a privatized fractional reserve system. China, India and North Dakota in the USA are examples of publicly owned banking systems which, notwithstanding the difficult times, are able to function. Once equitable, sustainable and, therefore, stable monetary, financial and economic systems are in place a global economic system can evolve where the objective is to develop thriving sustainable communities in both the global North and South and where individuals are asked to measure up to their social and ecological responsibilities.

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