TRANSFORMING THE INTERNATIONAL MONETARY SYSTEM:

A crucial “new and emerging challenge” for the Rio 2012 Earth Summit

A circular presented to the 2nd PrepCom on March 7-8, 2011

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Introduction

This circular introduces into the Rio 2012 preparatory process a “new and emerging challenge” that has to be addressed if the Summit’s objectives of fostering green economies and of establishing a sustainable development governance system are to be achieved, i.e. the transformation of the international monetary system. The Tierra Fee & Dividend (TFD) global governance system is presented here as a means of dealing with this challenge.

The TFD carbon-based international monetary system

The Tierra Fee & Dividend (TFD) system is like a three-legged stool. Its three components cannot function separately one without the other. The first component, a carbon-based international monetary system, combats climate change by advancing green economies. The second component, the Fee and Dividend carbon reduction method, reduces GHG emissions; it is selected over cap-and-trade because Fee & Dividend is faster, fairer, more formidable and more global than cap-and-trade. The third component, activist governments, supports the other two legs of this tri-partite global monetary system by reclaiming the sole right of creating credit and liquidity for the public sector, thus changing privately-owned banking systems into utilities which will not engage in money creation by the use of the fractional reserve system.

The TFD monetary architecture system has six components: the carbon-based monetary standard, national currencies or a world currency based up that standard, fixed but flexible exchange rates, a balance of payments mechanism that includes carbon accounts, a Global Central Bank that administers, monitors, regulates and provides credit and liquidity and a monetary court. Note that this monetary architecture represents a new monetary paradigm that has no need for a costly global reserve system because carbon-based national currencies or the Tierra world currency would be convertible.

The Present system is not equitable, sustainable, and, therefore, is unstable

* The system needs a global reserve system that costs non-hard currency countries some $100 billion annually by being forced to lend funds at very low interest rates to hard-currency countries
* The IMF vote and presentation procedures violate procedural justice
* The system cannot be sustained on account of the Triffin dilemma where national monetary policies of hard-currency countries cause world-wide monetary system instability, e.g. QE 2 in the USA causing hot money flows to emerging and developing countries with its associated pressures on the value of their currencies and their financial systems
* Signs of instability are the existing financial imbalances, currency manipulation and disputes, currency speculation, volatile exchange rates and the inability of the G20 Summits to deal with these monetary problems
* The IMF is failing in its surveillance function while applying its double standard

Present reforms are insufficient

* The IMF vote and representation reforms are too slow in coming and the IMF continues to be a fund without enforcement authority
* Including China’s RMB and Brazil’s real into the basket of currencies of the SDR makes sense but is insufficient on equity and sustainability grounds
* Proposal to have the US dollar and other reserve currencies transition into SDR substitution accounts would be a good intermediate step and so is a SDR-based global reserve system
* Returning to the gold standard is not an option, though searching for proper monetary standard that would remove the need for a global reserve system would be an option.

The way forward

The challenge is to develop an international monetary governance system that has enforcement powers and is based upon an appropriate monetary standard. The standard proposed in the Tierra Fee & Dividend global governance system is a carbon standard that would bring equity, sustainability and, therefore, stability to the 21st century monetary system while at the same time motivating countries in these carbon-constrained times to take decarbonization of their societies seriously, because the value of their currencies are measured by it.

A way to start addressing this “new and emerging challenge” of a carbon-based international monetary system is to have the UN General Assembly pass a resolution to establish the UN Commission of Experts on Monetary Transformation, Climate Change and Sustainable Development. This highly diversified commission of experts in climate, development and international monetary matters would explore the pros and cons of carbon-based systems such as the TFD. Their recommendations would be part of Monetary Agenda for Climate and Development Action that would be submitted to the UNFCCC in December 2011 which, in turn, would present its additional recommendations to the Rio Summit in May 2012. It is therefore suggested that the Rio 2012 Earth Summit which is going to set the world’s agenda for decades to come include in its Agenda 21 the consideration of a Monetary Agenda for Climate and Development Action. The time has come to understand that development discussions that do not include climate change as an essential part of the development challenge in these carbon-constrained times are doomed to be ineffective. Furthermore, it is time to understand that the transformation of a carbon-based international monetary system gives the international community a grand chance to simultaneously deal with the climate crisis and the challenge of sustainable development, including the chance of an integrated governance structure that would contribute to the “convergence of the three pillars of sustainable development” in the SG Report of December 18, 2010 and to the need for coordination in the DESA’s World Economic Situation and Prospects Reports of 2010 and 2011.