TRANSFORMATIONAL FINANCING: money for a post-2015 new world order.

Frans C Verhagen, Chapel Hill, North Carolina, USA

In our climate-constrained world, financing streams for climate, development, energy, water and food with their associated SDGs are demanding an ever-increasing quantity and quality of funds. At the same time, public budgets continue to be constrained in a poorly functioning and unjust world economy, poorly regulated privately owned banking systems and financial systems that are based upon debt rather than money. Relying too much on capital flows of the private sector is also dangerous because that financing like the cap-and-trade mechanism is often slow, unfair and restricted. Contributions to the Clean Climate Fund are not high enough to deal with a looming climate catastrophe.

Climate financing in the Lima and particularly the Paris negotiations has to include a way that would bring into focus the necessary systemic changes of the monetary, financial, economic and commercial systems that would make ample climate and development financing available. In other words, negotiators should spend some time discussing this very big picture of global systemic change and come to the conclusion that a visionary framework is needed for integrated climate and development financing that would include a preparedness plan for a looming climate catastrophe. Geo-engineering projects constitute another (less desirable) preparedness plan. A socially oriented visionary preparedness pathway is presented here that is based upon four essential pillars.

1. *Problem resolution through amplification*. When General Eisenhower faced a major problem, he amplified the problem and resolved the problem by connecting it with other problems. Albert Einstein had a similar approach by bringing the resolution of a particular problem unto a level that was higher than the level where the problem originated. In a similar way, resolving the climate challenge by connecting it with the resolution of the unjust, unsustainable, and therefore, unstable international monetary system is proposed here.

2. *Understanding the essential difference between money and debt*. If we want to establish transformational financing with its resulting abundance of funds for climate and development and thus be prepared for a climate catastrophe, we have to understand that money not debt should be the basis of a new financial system.

Any object could in principle be used as money as long as it is designated as such—the cognoscible characteristic of money-- by the people who are using it, whether it is put into a law or not. Thus, hundreds of complementary currencies are in existence beside the official currencies or legal tenders used in payments for taxes and duties. Consequently, a full legal tender declaration is not needed to make something money. It was back in the 1930s as part of the development of the Chicago Plan that economics Professor Henry Simons made the following grand observation about the mistake made by those who do not distinguish between money, credit and debt. *“The mistake…lies in fearing money and trusting debt. Money itself is highly amenable to democratic, legislative control, for no community wants a markedly appreciating or depreciating currency…but money is not easily manageable alongside a mass of private debt and private near-moneys…or alongside a mountain of public debt*.” Why should nations or states go into public debt if they can reclaim the privilege of spending money into circulation without going through a privately owned banking system? Debt is to be feared, not money.

3. *Transition to 100% reserve banking.*  Smart goldsmiths started fractional banking in the Middle Ages, one of the reasons of the financial crisis of 2008. Both the privately owned banking systems and the existing and the planned public state banks should transition to 100% reserve banking.

4. *A carbon-based international monetary system*. Such system would be based upon the monetary standard of a specific tonnage of CO2e per person. Its major institutions would be a global central bank and a modified balance of payments system that would account for both financial and ecological credits and debts. The latter would engage in converting financial indebtedness of countries in the global South who are ecological creditors. The conceptual, institutional, ethical and strategic dimensions of this Tierra monetary system are presented in Verhagen 2012 “The Tierra Solution: Resolving the climate crisis through monetary transformation” and updated at [www.timun.net](http://www.timun.net).

In conclusion, we have to dig deeper and go far beyond the present financing schemes. Transformational financing goes beyond these schemes and is clearly outside the famous box. Thus, the acceptance of such transformational proposal is by its very nature difficult for most people. However, persons like author Bill McKibben and former Earth Summit SG Maurice Strong think that it is an alternative that is worth considering as a safeguard when the climate and development situation is about to go out of control. Thus, it is suggested that government and business leaders at Lima and Paris consider developing an agenda for a preparedness plan. It is further suggested that such system be based upon a transformed international monetary system, which as glue binds together the monetary, financial, economic and commercial systems. The major consequence of this carbon-based international monetary system with its money-based financial system and a banking system with 100% reserve would not only be the availability of ample financing of the world’s major problems, but the emergence of a just, sustainable, and therefore, stable international governance system in our post-2015 world.

Frans C Verhagen, M.Div., M.I.A., Ph.D. is founding president of International Institute for Monetary Transformation whose mission is to promote the study of a carbon-based international monetary system.