



THE TIERRA INTERNATIONAL MONETARY PARADIGM:

A Summary Position Statement on a Carbon-Based International Reserve Currency as a Major Component of a New Monetary Paradigm



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INTRODUCTION

On 11 June 2009 US Secretary Geithner advised his colleagues of the G8 finance ministers assembled at Lecce, Italy, that “finance ministries in both developed and developing countries should play a lead role in designing a new financial framework for the Copenhagen agreement on climate change that will mobilize private and public funds required to meet the post-2012 financing needs for adaptation, mitigation, and land use activities in developing countries”. It is proposed here that the carbon-based international reserve and vehicle currency of the Tierra Monetary Paradigm not only becomes part of the debate on that new financial framework, but basically becomes the main frame of references in dealing with both the economic and climate crises. It would become part of the political monetary struggle between the G8/20 and the United Nations, one that bases its architecture of the monetary, financial, economic systems on some reform, the other on an architecture based on a transformative overhaul of present monetary, financial, economic systems which enrich the few, impoverish the many and imperil the planet. The views of the two camps have different views on multilateralism, one that is based on neo-liberalist and competitive tendencies, the other based on socio- and ecojust and cooperative tendencies. This is the basic political monetary power struggle to which theorists of less comprehensive monetary power struggles have yet to face up to.

The Tierra Monetary Paradigm represents a coherent, consistent and principled approach that, as a glue, would bind together the international monetary, financial, economic systems in the furtherance of equity and sustainability, and therefore, stability, in these three systems and their associated social/cultural systems of the world.

The Tierra Monetary Paradigm deals with both reserve and vehicle currencies on both the international and regional levels. The lowest level of implementation of the Tierra Monetary Paradigm is on the level of regional monetary cooperation where a regional reserve currency is chosen in order not to have to buy hard-currency reserves. Its highest level of implementation is on the international vehicle level where a global carbon-based vehicle currency is adopted. This level is predicated on the establishment of a UN World Central Bank.

The central and transformational fact of the Tierra Monetary Paradigm is its anchor in the avoidance of CO₂ and CO₂ equivalents. A monetary system can be anchored in any thing that is “intrinsically valuable.” Nobody will argue that in these times of a most dangerous climate crisis avoiding CO₂ is not “intrinsically valuable.” Unlike the dozen or so other proposals for global reserve or vehicle currencies that are not emissions based the Tierra monetary paradigm and the 2000 FEASTA Ebcu are the only two approaches that integrate the climate crisis into their monetary architectures.

The June 24-6 UN Conference on the Economic and Financial Crisis and its Impact on Development discussed the need for a fundamental change in multilateralism as it presently exists. The Tierra Monetary Paradigm is presented as one transformational form of multilateralism in the monetary area that would replace the neo-liberal monetary paradigm of the IMF/IBRD/WTO/BIS.

The following pages present the Tierra Monetary Paradigm both in its regional reserve currency architecture and in its international vehicle currency architecture. They will also indicate the transitional stages involved between the two types of international currencies.

THE TIERRA INTERNATIONAL RESERVE CURRENCY

Whether this international reserve currency is going to be applied regionally or internationally it is to be subjected to the same fundamental questions. What are the important questions for the emergence of a new international reserve currency such as the Tierra reserve currency?

During his interview in Lecce during the afore mentioned conference Egyptian finance minister Youssef Boutros-Ghali who is the chairman of the important IMF's International Monetary and Financial Committee, took the following positions. He supported the Chinese proposal for a new global currency to replace the dollar as the world's main reserve currency and stressed that this was a long-term project with many potential hurdles. "The idea is appealing, but it's a big undertaking, it will take a long time. To have a substitute reserve currency you need to create it, you need to have an

issuer for it and a market for it." He also took the position that the IMF's internal unit of exchange -- SDRs -- was an accounting currency and would not be a suitable unit for the project, as China and Russia have suggested. Important in his statements was the opinion about the three-fold challenge of a substitute reserve currency: its creation, its issuer and its market. So, the questions to be raised and answered in terms of the Tierra as a reserve currency are: What is the Tierra, Why and How to create it? How to market the Tierra?

WHAT IS THE TIERRA?

It is a new international, carbon-based reserve currency that is part of a nation's carbon account in its balance of payments. It would start out as a reserve currency, not as a vehicle currency that can be used in trade and other international transactions. If working well as a reserve currency nations or regions may choose to use it as a vehicle currency. The US dollar is presently both a reserve and a vehicle currency. In phase 1 the Tierra would replace the dollar, euro and yen as a reserve currency; in phase 2 it would replace those vehicle currencies and become the global vehicle currency that would be administered in a world monetary union under the auspices of the UN. In phase 1 the Tierra reserve currency would be administered by a UN Monetary Board with less authority than its vehicle currency counterpart. In either case its global monetary governance would be constituted as part of participatory decision-making of the G192 and not of the G8/20.

WHY TO CREATE THE CARBON-BASED INTERNATIONAL RESERVE CURRENCY OF THE TIERRA?

A new international, non-national reserve currency has been recommended by the Commission of Experts of the President of the UN General Assembly on Reforms of the International Monetary and Financial System of the Stiglitz Commission. It is promoted by China and Russia and less so by India and Brazil, the four BRIC countries, though the G20 Summit in London on April 2 seem to have smothered for the time being. The reason for a non-national reserve currency is that a national or regional currency cannot function as an international reserve currency because those currencies fluctuate and are, on balance, disadvantageous to both the issuing and using countries and particularly to the monetary, financial, economic systems as a whole. (Stiglitz 2003; Stiglitz 2006) The recent Yekaterinburg conference of BRIC Countries and the Shanghai Cooperation Organization seems to become a turning point in a de-dollarization process. According to economist Michael Hudson it is was the turning point where the US-centered international financial order was brought to ground (Hudson 2009).

The Tierra Monetary Paradigm agrees with the Stiglitz commission's recommendation for a non-national reserve currency, but proposes to include a component into the reserve currency that would systemically deal with the challenge of the climate crisis. The currency is to be carbon-based and be made part of a nation's carbon account in its balance of payments. In that way it can function as a major institutional mechanism to combat the climate crisis, particularly in balancing the

nations' carbon accounts by transferring Tierras from ecological debtor countries in the global North to ecological creditor countries in the global South.

The new reserve currency, then, would become a major means for ecological debtor and financial creditor countries in the North to settle their ecological debts with their ecological creditor debtor countries in the South who are given the opportunity to settle their financial debts within the context of their ecological credits. There is no escaping the fact that the ecological and financial indebtedness of nations are part of one reality and have to be resolved in an integrated manner. It was a telling event during a side event at the UN Conference that objection of the president of a major international civil society organization (CSO) in the North not to have a blame game between North and South about ecological indebtedness was countered by a Mexican government official and an African CSO director that the ecological and financial indebtedness of nations is a social justice issue that has to be dealt with. (Saldanha 2008; Hudson 2009)

HOW DO YOU CREATE THE TIERRA?

Being carbon-based, the Tierra currency would be created by the equal allocation to all adults and adolescents of an amount of carbon emissions permits (CEPs) determined by the carbon or CO₂e target set by the UNFCCC. The value or price of these permits would be set some percentages above the price levels of the European Carbon Exchange and The Chicago Climate Exchange. The setting of the price is done by the proposed UN Monetary Board in phase 1 and the UN World Central Bank in phase 2. On a national or regional level, these carbon emissions permits would be managed by a national or regional Tierra Administrative Board, an independent trust, that would be elected. If these national or regional Tierra Boards decide to have individuals use their CEPs as a means of exchange the Tierra reserve currency can be considered to have become a national or regional vehicle currency.

Anchoring the Tierra on the intrinsically valuable objective of reducing and avoiding CO₂, the Tierra Monetary Paradigm will be operating on the carbon standard. This carbon standard would start functioning like the classic gold standard with its fixed exchange rates which was in effect between the 1890s and WW I. Like the maneuvered gold standard it would have a narrow band within which currencies could fluctuate, the so-called "snake in the tunnel".

WHO OR WHAT WILL BE THE ISSUER OF THE TIERRA?

The issuer will be a UN Monetary Board in the case of the Tierra reserve currency and the proposed UN World Central Bank in the case of the Tierra international vehicle currency. This UN Board or Bank can start functioning when the Tierra has been accepted as the reserve or vehicle currency in the normal way of treaty making and ratification. So, unlike the Renminbi or the ruble that is being proposed for a substitute reserve currency by the issuing Chinese or Russian bank, the Tierra's issuer is not yet in existence. It has to be created by the international community. It is hoped that negotiations during the UN June 24-6 Conference in New York and the Copenhagen

December 09 conference lead to the establishment of a UN Commission on Monetary Transformation that would include the study of the Tierra Monetary Paradigm. It is worth noting that the outcome document calls for a working group on monetary matters and that one of the Stiglitz Commission members encouraged me to continue pursuing the carbon-based currency option. It is also worth noting that several institutions such as the UN University is planning various activities in preparation for the Copenhagen conference that would attempt to pursue an integrated solution to the economic and climate crises. The Tierra Monetary Paradigm proposed such solution. It could become the major institutional funding mechanism in the UN system for funding development and climate mitigation and adaptation, a challenge made more difficult by present economic crisis that reduced financial resources in both the North and South.

WHAT WILL BE THE MARKET FOR THE TIERRA?

For candidates for a new international reserve currency such as the Renminbi or ruble to be viable means managing in such ways that their currencies become accepted by the regional and, later on, by the international market. These currencies might be regionally accepted as reserve currency during these times of an inconvertible dollar and fluctuating exchange rates, but they have the same weaknesses as the dollar, euro or yen as international reserve currencies. There will not be an international market for them in the present thinking.

The market for the Tierra as an international reserve currency is global, because the challenge in dealing with the climate crisis is global. Nations that face their common, but differentiated responsibilities will accept this new reserve currency because it would contribute, to a great extent, to the resolution of the economic crisis through resolving the climate crisis. It would provide liquidity to all on an equitable basis, thus promoting purchasing power in both north and, especially, in the South. The carbon-based international reserve currency of the Tierra would be able to make that economic contribution because it taxes those countries and individuals whose carbon footprint is above the internationally set carbon targets. At the same time the Tierra currency as part of the carbon account in the balance of payments would be an institutional mechanism to deal with humanity's greatest challenge of maintaining the planet's atmospheric concentrations of GHGs at a safe level.

In a strict sense, Tierra Monetary Paradigm needs not to be marketed as the Renminbi or ruble. It is a question of acceptability by government, business and civil society, based upon their "common and differentiated responsibilities and respective capabilities" in respect to the climate crisis. It is, of course, heavy lifting, even in the US after the passing of the Waxman-Marky bill in the House of Representatives where 212 members voted against the bill, among whom only a handful opposed the bill because of being too weak. The section below on Constraints and Opportunities shows to some degree the present level of acceptability of the Tierra Monetary Paradigm, both in the US and abroad.

WAS THERE EVER A TIERRA-LIKE RESERVE CURRENCY?

Yes and No. There was an emission-based currency unit—Ebcu--in the late 1990s the originators of which even held an international conference in 2000 that produced the FEASTA Noordwijk Aan Zee Draft Treaty. However, it was not conceived as a reserve currency that would be part of a nation's carbon account in its balance of payments. But, like the Tierra, it is based upon emissions. Both the Tierra and Ebcu are the only emission-based currency proposals amidst a dozen other currency proposals that are based on either a basket of currencies, the consumer price index or other monetary or economic arrangements. (Douthwaite 1992; Douthwaite 1999, 2008)

HOW DOES THE TIERRA COMPARE WITH THE SDR?

Unlike the SDR, the Tierra offers a transformational approach to solving ecological and financial indebtedness--using carbon accounts in the balance of payments as an institutional means to fund development and climate mitigation and adaptation. Furthermore, the IMF does not have the capacity to deal with the various dimensions of the climate crisis as proposed in the Tierra Monetary Paradigm. It also does not have the needed legitimacy to represent the G192, given its quota system and weighted voting. However, I consider the SDR as a transitional reserve currency into which anxious lenders to the US Government could transfer their dollar reserves. Such planned transfer as suggested by Garten of the Peterson Institute of International Economics would be eminently preferable to letting the dollar slide based upon market forces, i.e. political machinations of large US international banks and its cohorts in the IMF, WTO and BIS. It is time for the Obama Administration to starting planning for this smooth transfer out of the dollar to the SDR and, then, to the Tierra.

TRANSITIONING FROM A REGIONAL CARBON-BASED RESERVE CURRENCY TO AN INTERNATIONAL CARBON-BASED VEHICLE CURRENCY.

The Tierra reserve currency can evolve in different ways to become a vehicle currency. Once accepted as a reserve currency, national or regional Tierra Administrative Boards can decide to have their citizens use their CEPs as payment, either to pay taxes, settle accounts nationally or regionally.

The second major way of having the transition taken place is from the top downwards, i.e. UN monetary leadership accorded by governments with vision and courage.

In whatever way the transition takes place, needed always is leadership with vision, persistence and good strategizing. An example of such leadership is demonstrated by Ecuador's President Rafael Correa who, both at his presentation on June 25 at the General Assembly and at his side event in the afternoon, is reshaping the monetary and financial architecture of Latin America along lines of a regional bank, reserves, currency. As a former economics professor his position of abolishing the independence of central banks and making them part of the public sector's participatory decision-making is to be taken seriously.

CONSTRAINTS AND OPPORTUNITIES

There are many constraints and, perhaps, less opportunities in having the Tierra Monetary Paradigm become the ruling paradigm. They and the paradigm itself are presented in the book that I am writing entitled “The Tierra Monetary Paradigm: An International Solution to the Ecological And Financial Indebtedness Of Countries In The Global North And South.” It will be published by Cosimo Publishing in New York and available by early 2010.

Though cultural and economic constraints are important, probably the most trenchant ones are political. It is the political economy of international monetary relations which do include cultural and economic ones that is the most important area in which the struggle has to take place. Fortunately, some good monetary studies are emerging, particularly those that are being published by the Politics of Money Series of the Cornell University Press. (Kirshner 1995; Kirshner 2003; Andrews 2006). Kirshner’s taxonomy of monetary power as currency manipulation, currency dependence and currency disruption is most useful.

It is a struggle of minds and hearts between a neo-liberalist establishment of the G8/20 and its monetary/financial architecture of IMF/IBRD/WTO/BIS that is based upon untenable macro-economic assumptions (see blog of June 29), the United Nations which is trying to reassert its position of the legitimate (and imperfect) representative of the G192 and the mostly CSO movement for fundamental reform or transformation. It is the latter formation in which the International Institute of Monetary Transformation’s Tierra Monetary Paradigm is located.

It is necessary to mention the role of large transnational corporations, particularly the financial ones that form the mostly invisible basis of G8/20 positions. The Financial Services Agreement of the WTO binds governments to the overarching power of these international financial corporations with their infrastructure of think tanks and conferences such as the Bilderberg Group and World Economic Forum. They are able to exert their monetary power by currency manipulation (Soros 2008), making nations currency dependent and engage in currency disruption. (Kirshner 1995). They have even managed to bring governments before the International Center for the Settlement of Investment Disputes where over 95% of all cases are decided upon, in non-public settings, in favor of transnational corporations <http://icsid.worldbank.org/ICSID/Index.jsp>. It is also revelatory that president Obama in his recent response to the House Climate Legislation pointed out that the “border adjustments” or tariffs mentioned in the legislation might be illegal (NY Times June 29). Rightly in my opinion, House members should make those “border adjustments” against nations that are not serious in combating climate change.

Opportunity favors the prepared mind. There are also many opportunities for those who are prepared to listen and learn, to study the signs of the times.

There is much evidence to show that a sustainability revolution is emerging (Edwards 2005). The Tierra Monetary Paradigm is considered to part of its monetary incarnation.

As mentioned before, the UN General Assembly is reasserting itself and has presented innovative proposals to address the economic crisis. The funding issue both for development and climate mitigation and adaptation measures is a pressing issue, a condition that is favorable for the discussion of the Tierra Monetary Paradigm. I also consider GA president's opening and closing statements at the June Conference a most favorable condition, because it presented the vision of the Earth Charter which is integral in the Tierra Monetary Paradigm.

<http://www.un.org/ga/president/63/statements/econferenceopen240609.shtml> His mention of Teilhard de Jardin's noosphere and cosmogenesis/evolution (Swimme and Berry 1992) are part of the contextual sustainability principle upon which the Paradigm's theoretical framework is based.

During the June 25 side event sponsored by the UN Mission of the Netherlands its Minister of Development Cooperation, Bert Koenders, pointed out that there is a "sense of insecurity in all stakeholders" and that this insecurity makes governments more willing to cooperate in search of solutions that work. It is in such environment and an increasing awareness of the enormous adverse impact of both the economic and climate crises that transformational thinking may emerge. Many participants spoke of the need of a paradigm shift, a new multilateralism, and fundamental reform.

An additional opportunity for the Tierra Monetary Paradigm to be considered in the discussion space that has been opened at the UN and other places is the debate on the appropriate source of money creation. In her Web of Debt book (Brown 2008) and on the Open Government Dialogue site <http://opengov.ideascale.com/akira/dtd/3648-4049> Ellen Brown strongly and, in my opinion, convincingly argues for the money creation function to be returned to the public sector. The American Monetary Institute has prepared legislation to that effect that will be sponsored by former presidential candidate Dennis Kucinich. It was also significant that Ohio Congress woman Kantor recently questioned Fed Chairman Bernanke about money creation. Internationally, central banks that are generally privately owned and considered to be independent and apolitical, will increasingly be questioned about their roles and functions, also creating a space of discussion, the first step in the process of transformation. The contribution of President Correa Delgado is crucial stimulant for such discussion about central banks, the BIS, the central bank of central bankers, and the whole neo-liberalist financial and monetary architecture.

A final and perhaps the best opportunity for transformational monetary change is the urgency of simultaneously dealing with the economic and climate crises or, in other words, with the ecological and financial indebtedness of nations. www.timun.net list among the IIMT's documents different versions of that emergency under the generic title of the Tierra Manifesto of 2009.

CONCLUSION

This Summary Position Statement (SPS) supercedes the February SPS found on the Tierra website. It refines the latter by placing it into a sharper focus on the political economy of international monetary relations, by clarifying the role of the Tierra in respect to the SDR, by introducing the distinction between reserve and vehicle currencies and by pointing to the various regional monetary forms of cooperation that provide major opportunities for the introduction of the Tierra as a reserve currency and even a vehicle currency.

All in all, the insecurity of our times opens up the condition for profound discussion about transformational changes in monetary and other matters. Armed with the vision of the Earth Charter that was so well presented at the June Conference in the GA President's opening address, humanity is on the threshold of making a major contribution to the sustainability revolution, the hope for well-being of people and planet.

William D. Ruckleshaus, Head of the U.S. Environmental Protection Agency 1970-73 as quoted in (Edwards 2005) posits the challenge thusly:

“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.”

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