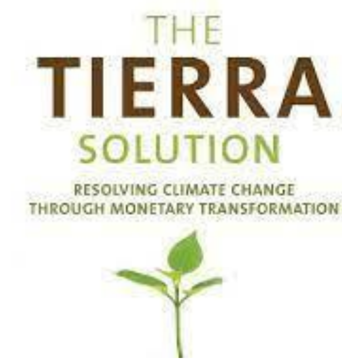
“A Global Monetary System to Tackle the Climate Crisis”

A Review (4-2023) by Dick Burkhart of

“The Tierra Solution”

By Frans Verhagen (2012)



Professor Verhagen has developed an ambitious plan for a new global currency and new institutions to rechannel global financial resources toward both equity and sustainability. The currency would be based on the reduction of carbon emissions, to be reflected in new international balance of payment accounts, taxing high carbon fuels with a “fee” structure and investing in low carbon fuels and associated technology and infrastructure.

Verhagen also proposes that the current debt-based currencies, with fractional reserve banking, be replaced by credit-based currencies, where all money is spent into existence by governments, or by a new Global Central Bank for the new “Tierra” world currency. The financial backing for this currency is to be based on a “fee and dividend” mechanism. Locally this would operate like the Alaska Permanent Fund: As Verhagen points out, “Like Social Security, Fee and Dividend will entrench itself politically as a universal benefit” (p 37).

A fee would be levied on each source of carbon according to its projected emissions – its emissions of carbon dioxide per ton per person (very high for coal, much lower for methane, in the middle for oil). The revenue would be returned to all citizens of the jurisdiction equally except for 5-10%, which could be used for Tierra balance of payments transactions between jurisdictions or investments in sustainability.

Negotiations organized by the Tierra monetary authorities would determine the balance of payment payments or benefits. Or, as Verhagen puts it, “Nations would agree on the increase in the price of carbon and a uniform carbon fee, then would negotiate the discount to be allocated to a nation depending on its phase of development….Each nation would charge transnational corporations the same [Tierra] fee for fossil fuels, while collecting a discounted rate from domestic producers” (p 37). Verhaugen also points out how the fee and dividend mechanism could also be applied to other sources of green house gas emissions, including “land use and deforestation”.

But Verhagen seeks to tackle monetary instability and injustice at the same time. He cites not just the Financial Crash of 2008 but also how poorer countries have been put into debilitating debt to richer countries by the global financial system dominated by the IMF, World Bank, WTO, BIS, etc. This has left the poorer countries with far fewer resources to pursue their own ways to mitigate climate change. Verhagen notes that “Currency speculation and the foreign exchange futures rackets were major consequences of Nixon's August, 1971, decision to make the US dollar non-convertible with gold." (p 61).

He points to 3 issues identified at the 2008 Washington Summit, still not addressed (p 78):

(1) The need for a sovereign debt workout mechanism such as a global bankruptcy court.
(2) The need for an international tax organization.
(3) The need for a global reserve currency.

Verhagen's Tierra is designed to address all 3 of these needs. He estimates a cost today of "some $100 billion annually", especially to nations of the global South, "for keeping the inefficient global reserve system in place" (p 101). This means "austerity budgets" for the people, yielding riches for the "investor class".

Money as credit goes back to Abraham Lincoln and the greenbacks that financed the US civil war: "The government should create and circulate all the currency and credit needed to satisfy the spending power of government and the buying power of consumers" (p 111). Lincoln recognized that the government could save the people a lot of money by cutting out the bankers and speculators, as is also promoted by today's Modern Monetary Theory, subject only to inflationary pushback. Inflationary pushback against public spending can be reduced by taxation, especially of excess consumption, also by rationing or other restrictions during extraordinary circumstances, such as war.

The Tierra currency would be a global reserve currency issued by a new Global Central Bank, serving as both "the international means of exchange and a store of value" (p 166). The value in question would depend on the development of "Global Green House Gas Standards" such as for cities and other sectors, using the IPCC protocol and similar initiatives from the nonprofits and governments. An entity which is measured as closer to its relevant Carbon Standard would have a higher value. Since this proximity is based on actual or estimated carbon emissions, it would yield convertibility between national or regional currencies and the Tierra global currency, just like the gold Standard of yore.

There are two big challenges here. One is to develop and standardize the methods for estimating carbon emissions, especially when these are embedded in various processes, services, and infrastructure rather than directly measured. The second challenge is to development the global institutions to accomplish this – to regulate and carry out the tasks of measurement and regulating plus financial practices like accounting and providing credit and liquidity.

The centerpiece of this challenge, of course, would be the establishment of the Global Central Bank itself, especially to get the necessary geopolitical backing of all the major world powers, most of the secondary powers, and a good majority of the tertiary powers. Verhagen says that "these functions will be negotiated and become part of the Tierra Treaty's Articles of Agreement" (p 183). Yet he does not get much into the difficulties of accomplishing this and how the world might overcome the obstacles.

However Verhagen does elaborate on the functions of this Global Bank. For example, it would keep “track of both the financial and carbon surplus and deficit accounts….It would also monitor the financial and political activities of international financial services institutions and their tax shelters, not only commercial and investment banks, but also hedge funds and private equity funds” (p 184).

It “would also regulate the budgetary and fiscal policies of its member states, so that all would operate within clear and accountable rules in budgetary and fiscal planning”…It would also have a division to act “as a bankruptcy court”…It would “create a great variety of ways to make credit available in different asset markets”…and “would provide liquidity by making additional Tierra allocation available on an emergency basis” (p 185-6).

Moreover the Global Bank would be affiliated with the United Nations and would be governed democratically with Board members from a fair representation of states and with expertise as (1) central bankers, (2) finance ministers, and (3) ministers in charge of climate and development (p 189).

To his credit, Verhagen also foresees “one of the greatest obstacles to this transformation of international monetary system (and its associated changes in the financial, economic, and commercial systems) is the still prevailing economic theory of growthism” (p 244).

Yet as today Ukraine War, and the increasing China / US tension, demonstrate, he underestimates the geopolitical obstacles, especially old-fashioned big power politics, as the US becomes less dominant. And even the European Union has found it a very contentious matter to regulate the budgetary and fiscal policies of its members states, with national sovereignty looming large. Nevertheless, this book constitutes an impressive vision to guide future generations as they search for more practical ways to tackle developing global crises.

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