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Cadmus

Promoting Leadership in Thought that Leads to Action

Volume 1, Issue 5 - October 2012

Money, Debt, People and Planet

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Abstract

The widespread failure to understand money creation plays a key role in the current policy impasse. In a world ruled by money, this failure disempowers and prevents serious consideration of alternatives. The key reasons why we are not moving faster in tackling the global crises are, we are told, because it is too expensive, there is not enough money, it is not (yet) profitable enough to do etc. Within the current global monetary framework, this is largely true. Therefore, any realistic plan to change course before we are overwhelmed by the inter-linked environmental, social and security threats facing us, is to change this framework to ensure that money becomes our servant again. The current debt crisis offers an opportunity to replace discredited debt-based money created by private banks in their interest with government-created debt-free money benefitting all, which can be used to fund a global emergency programme.

"We know now that government by organised money is just as dangerous as government by organised mob." — President F.D. Roosevelt, 31.10.36

"The essence of the contemporary monetary system is creation of money, out of nothing, by private banks' often foolish lending. Why is such privatisation of a public function right and proper, but action by the central bank to meet pressing public need, a road to catastrophe?" — Martin Wolf, 'Financial Times', 9.11.10

"The obvious way to reduce our public and private debts is to stop having all our money created as debt." — James Robertson, 'Future Money'

The widespread failure to understand money creation plays a key role in the current policy impasse. In a world ruled by money, this failure disempowers and prevents serious consideration of alternatives.

We have now reached a tipping–point where the ruling monetary belief systems are destroying economic well-being and social peace as well as threatening the very survival of civilisation and even life on earth. We have globalised our economies — but not our responsibilities. The externalities we have dumped on our global

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ecosystems — and on future generations — are now returning to remind us that the much recent "growth" is only debt, fuelled by natural (and social) capital destruction.

We are ruled by cost-benefit-analyses but it is important to remember that these are not neutral but tools in the hands of those who use them. Every economic calculation, every bottom line depends on what has been included or omitted from the top lines of the equation! The decision on what to include and omit is a function of power. Over the past decades a wealthy minority has used those tools — finessed by economists, politicians and propagandists in their service — to vastly increase their wealth at the expense of our common good and future, claiming that there is no alternative to their "Washington Consensus". But, to quote US author Thomas Friedman, "hidden hand of the market will never work without a hidden fist."[1]

This fist is US (military and ideological) power. The belief that this power has already shifted to Asia is mistaken. The emerging Asian (and other) economies have joined an international structure of institutions designed primarily in the interests of Wall Street.

On top of this structure stands the US Dollar as the global reserve currency. The huge seigniorage and other advantages this gives the USA have recently been noted, e.g. in China,[*] Malaysia and Brazil.While hundreds of millions of Chinese worked very hard for many years to earn the huge dollar reserves now held by their country, the USA just "printed" a similar amount through its Quantitative Easing programme, thus devaluing everyone else's dollar holdings.

Since the overall economic growth rates began to fall in the West in the 1970s, the richest Americans have increasingly opted out of their societal responsibilities. From 1979-2005 the wealth of the richest 1% increased by 200% while that of the poorest 20% grew by 1%! The number of women living in poverty and extreme poverty in the U.S.A has reached record levels.[†]

This unprecedented bottom-up wealth transfer was made acceptable to the majority by encouraging them to go massively into debt, until the first bubble burst a few years ago. When it became clear that the real economy could no longer achieve the growth rates required to keep the majority from questioning the ruling economic order, debt was encouraged to create the illusion of continued and growing mass prosperity. The huge debt over-hang continues, paralysing and destabilising governments, economies and societies. It is predicted that every Irish family of 4 will owe € 200,000 by 2015.[2]

And more is to come: The historian Niall Ferguson describes pension and social security entitlements in the USA and many European countries as "a vast claim by the generation who are retired or about to retire on their children and grandchildren who are obligated by law to find the money in the future by submitting either to substantial increases in taxation or to rastic cuts in public expenditure."[‡]

* In October 2009 United Nations Under-Secretary-General for Economic and Social Affairs Sha Zukang called for a new global reserve currency to end the US dollar supremacy, saying "Important progress in managing imbalances can be made in reducing the reserve currency countries 'privilege' to run external deficits in order to provide international liquidity. It is timely to emphasise that such a system also creates a more equitable method of sharing the seigniorage derived from providing global liquidity." (Istanbul, 5.10.09, see www.un.org)

† See National Women's Law Center, September 2011. "Analysis of New 2010 Census Poverty Data" http://www.nwlc.org/analysis-new-2010-census-poverty-data-%E2%80%93-september-2011

‡ See *Sunday Times* 17.6.2012.

But, in reality, every society decides autonomously how to share what it produces between the generations. Unpayable past debts are not paid, as many historical examples show. The dislocation resulting from such debt cancellations, restructurings, "haircuts" etc. can be substantial but are soon overcome when the real economy is freed from excessive debt and interest burdens and able to function again. Bankrupt banks can be nationalised and recapitalised, giving the tax-payers a quid-pro-quo. The claim of German economists like Hans-Werner Sinn that "our children will be forced to go to Southern Europe to take back our money" is absurd. The Euro crisis loans have not ended up with the citizens of Greece, Spain etc. but have been used to repay past loans and recapitalise banks, thus transferring (unpayable) claims from lenders and share-holders to tax-payers.

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What makes the coming financial debt deleveraging much harder this time are growing environmental debts. It has been calculated that there is a $20 trillion bubble of "stranded assets" which have not yet been accounted for but which will have to be written off because of environmental constraints, e.g. water shortages and the need to avoid catastrophic climate change (Bill McKibben).

The conventional political answer is that such issues must wait until "growth" has resumed, making us rich enough to better deal with them. But this is a fundamental error. If business-as-usual growth does resume, it will become increasingly un-economic, consumed by repairing and protecting from its own consequences. Economic "externalities" can no longer be ignored when they dismantle nature's security and immune systems which underpin our lives, societies and economies. Climate change is already having a global impact on food supplies. The impact is particularly harsh on rural women and their families in low-income countries, as women already spend many more hours collecting scarce water and providing sufficient food for their families than in past decades.[*]

The global temperature increases predicted under business-as-usual growth scenarios threaten water and food catastrophes within decades and to make our planet literally uninhabitable within a few generations! There would be no place left to enjoy the fruits of this "growth"...

The Western debate about these momentous issues is still surreal. Studies of growing global resource constraints (e.g. Chandran Nair's "Consumptionomics") are taken seriously in China and the reason why it is willing to pay more for future reserves than they are "worth" according to the discount rates used by Western economists.

As Pavan Sukhdev of UNEP has noted, such discount rates assume that we will all be richer in future. If this is not realistic, rates should be negative, to reflect the higher future value of scarcer resources. However, Western elites still prefer to listen to the Danish statistician Lomborg who assures them that the future costs of resource and environmental constraints can be paid from the proceeds of continued "growth".[†] But human development and productivity require functioning ecosystems.

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*See e.g., Lauterbach, Claire and Sarah Bibler, October 2012. "Gender, IFIs and Food Insecurity Case Study: Zambia." http://www.genderaction.org/publications/zambiafoodsecurity.pdf; Gender Actions 2011 Governing Climate Funds: What Will Work for Women? http://www.genderaction.org/publications/11/climate-funds-for-women.html

†See *Foreign Affairs* Sept-Oct 2012.

> *"Money against performance is not inflationary... Unutilised productive resources can and must be put to work to regenerate our economies, societies and eco-systems."*

We are not as rich as we imagined. Many pension and investment fund valuations are now based on unrealistic real economy growth scenarios. Savings only transfer wealth to the future to the extent they can be and are invested to produce new wealth. We cannot eat speculative bubbles.

So, how can we dig ourselves out of this hole? The first step has to be to stop digging deeper! We cannot reduce financial or environmental debts by continuing to increase them.

Debts and assets are always equal and reducing one means reducing the other! Receiving interest requires a debtor paying it. In a debt-based money system reducing debts also reduces the money supply. Government debt reductions now demanded by "the market" are larger and will have to last longer and produce more "austerity" i.e. social capital destrution, than our societies are likely to tolerate. Already these austerity measures are taking a huge toll, especially on women, who have historically taken on the increased work burdens of caring for the sick and elderly in face of cuts to social spending on health, education, and child and elderly care. Moreover, when societies fail to invest in caring for and educating children, they are not only harming quality of life; they are failing to invest in human capacity building — which in the long-term is economically disastrous.[3]

There is only one way out of this dilemma, namely for governments to issue new money and spend it directly into the economy to replace the debt money destroyed by deleveraging. With proper controls, there is no reason why this should be inflationary, despite the scary stories from commentators who are uninformed about the actual history of the Weimar and other historical hyperinflation episodes. Money against performance is not inflationary. If supply and demand grow together, prices remain stable. Central Banks have many tools to ensure that this remains the case.

The long-term costs in missed output, lost skills and health caused by rising unemployment now threaten the social peace in many countries. Unutilised productive resources can and must be put to work to regenerate our economies, societies and eco-systems.

The new money created will be equity, not new debt. It can be issued by the right of governments' seigniorage (money-issuing) powers, as stipulated e.g. in the US Constitution Art.1, Section 8, to be spent to promote the general welfare, e.g. on education and infrastructure. Governments can also use it to make interest-free loans, e.g. to local authorities.

> *"It is often said that governments should not "pick winners". But this is exactly what governments have done in favour of the financial sector."*

There are several ways to reduce pre-existing government debts. Debts to the Central Bank, i.e. de facto to itself, can either be cancelled or — if preferable for accounting purposes — exchanged for 100-year interest-free bonds.

Tax-payers would clearly be major beneficiaries of this reform. It would ensure that the income from money creation goes to the whole community and not just to a small minority of bankers, (who would need to borrow from the state to cover deficits instead of vice versa). It is not unprecedented. Thus, it was only from 1973 that national (and later EU) law obliged the French government to borrow from the financial markets to fund itself. It has been calculated that, under the pre-1973 legislation, the French deficit would today be less that 9% of GDP instead of almost 80%.[4]

It is often said that governments should not "pick winners". But this is exactly what governments have done in favour of the financial sector, passing numerous laws regulating in its favour and legalising the weapons which banks have used not just to create excessive debt money and destabilise our economies but to attack the governments which recently saved them![*]

We must deleverage our accumulated debts before our economies collapse and our planet is irretrievably mutilated — for nature cannot match the profit requirements of compound interest rates! Debt money discounts the future, making its protection and preservation "unaffordable". Even using low discount rates, it can thus be "proven" that it is "uneconomic" to preserve natural wealth for future generations. Prominent Anglo-Saxon economists have seriously argued that climate-change is mainly expected to damage agriculture which is only a small percentage of GDP in rich countries and can thus be easily compensated by "growth" in other sectors of the economy...

Debt reduction costs will hit the rich as well as pension and insurance funds, as they together hold most of the financial shares and other corresponding assets. The resulting money destruction is likely to further postpone urgent environmental investments as "currently unaffordable". It is therefore imperative that debt deleveraging is accompanied by new debt-free money creation. Only thus can we kick-start a green industrial revolution of entrepreneurship and job creation in time, restoring the health and wealth of both the people and the planet!

This proposal is not an alternative to taxes on financial transactions, CO_2 emissions and on other uses and abuses of the global commons.[†]

However, these proposals are mired in ideological disputes and it is unclear how much income they will generate, as they are also intended to shrink the assets (financial transactions, CO_2 emissions etc.) to be taxed. Other solutions are either not on the scale of the challenge (e.g. local and regional currencies), a recipe for further debt bubbles or ineffective, e.g. Central Bank funding used by banks to buy back their own debt.[‡]

This proposal may appear radical because of the power of the promoters of current monetary dogmas. However, there is now an increasing interest in such outside-the-box thinking even in conservative institutions which are aware that the "wealth" created by the current financial system is increasingly illusory. Thus, the IMF recently (August 2012) published a working paper entitled "The Chicago Plan Revisited", arguing that replacing the current system of money mainly created as debt by private banks with government-issued debt-free money would have numerous economic advantages by reducing public and private debts, stabilising business cycles, eliminating bank runs etc.

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* Between 1998 and 2008, i.e. mostly under a red-green government, Germany passed 38 laws and regulations for the "promotion and liberalisation of the financial markets and the banking sector". This was justified as facilitating "growth".

† Major currencies are traded by one global automatic system, regulated by the Federal Reserve Bank of New York. An FTT does not require the agreement of all countries, only a few lines of software code added to this payment system.

‡ See *Financial Times* 11.10.2012.

Recent studies by the Boston Consulting Group ("Back to Mesopotamia?" September 2011)* and the German Institute for Economic Research ("Deutsche Bank Research", 24.8.12) have presented the case for major wealth levies to reduce debt burdens.

This is because these institutions recognise that the only alternative to orderly debt deleveraging is an even more costly disorderly collapse and wealth destruction. Much "wealth" held by creditors now consists of claims which can never realistically be repaid. Assets and liabilities of financial conglomerates consist mainly of liabilities and assets of other conglomerates.

Without a focussed immediate injection of debt-free government money to kick-start the greening of our economies currently stalled by austerity programmes, the required massive financial debt reductions are likely to cause a global depression and social collapse as well as delay, perhaps beyond points of no return, the measures now urgently needed to protect and restore global planetary health.

Cornerstones of the (labour-intensive!) global emergency programme to be funded with new debt-free money would be

- the rapid expansion of renewable energy production, as every day of delay threatens climate chaos and burns fossil fuel raw materials with valuable alternative uses;
- water conservation and food security programmes that emphasize women and the poor as stakeholders in natural resource management;
- the regeneration of our cities, transport systems and buildings;
- the protection of fish stocks and other threatened species;
- investments in sustainable forest management;
- providing education for all and implementing other (much behind schedule) UN Millennium Development Goals;
- strengthening women's rights to ensure that every child born is wanted;
- projects enhancing global security, governance and trust.

The World Future Council invites interested partners to join us to explore the institutional and legal steps required to implement these proposals.

(Members of the WFC Commission on Future Finance contributed to this paper)

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Notes

1. Thomas Friedman, "A Manifesto for the Fast World" *New York Times* March 28, 1999 http://www.nytimes.com/1999/03/28/magazine/a-manifesto-for-the-fast-world.html
2. Peter Boone and Simon Johnson,"Irish Worries for the Global Economy," *Want Less Blog* http://thesmartmoney.wordpress.com/2010/09/03/irish-worries-for-the-global-economy-by-peter-boone-simon-johnson-at-base/
3. Riane Eisler, *The Real Wealth of Nations: Creating a Caring Economics* (San Francisco: Berrett-Koehler, 2007).
4. Bernard Lietaer et al., *Money and Sustainability: The missing link* (Axminster: Triarchy press, 2012), 125-127.

* The reasons given for regular debt forgiveness in ancient Mesopotamia were "freedom, justice, equity and that the strong might not oppress the weak".