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SEED-IDEA – Securing Our Commons:
New Forms of Financial Engineering to Secure Our (Global) Commons and Mobilise Trillions of Private Sector Liquidity

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If we look in detail at the dozens of Green Deal agendas globally and the UN SDGs, we will find that around two-thirds of them relate not to private goods but to global commons. Given that 85% of our global wealth is privatised already and we have a lot of liquidity on the capital market, we need to look carefully at how we can generate the money we need without privatising the rest of our planet.

The damage we have already caused (species loss, land degradation, climate change) has created massive social and ecological externalities that will increase our future costs. In other words, we have had our lunch and are trying to get away without paying the bill; we forgot to clean up and have left the mess for the Global South, future generations or nature itself to deal with. Now we are starting to experience the negative impact in the form of increased risks, adverse events and shocks. So we have to come up with a strategy that minimises the associated future costs and take a preventive approach similar to those we are familiar with.

Funding, hedging and managing the commons is a fiendishly difficult problem. On the one hand, commons can generate a staggering ROI of 1:15 or higher, if properly implemented; on the other, the public sector is over-indebted in most OECD and developing countries. In addition, the Anthropocene era is marked by uncertainties and asymmetric shocks. This makes it harder to mobilise the trillions of private sector liquidity that we need to fund the necessary global commons. Ensuring our commons means ensuring economic wealth and prosperity.

No taxation scheme currently exists anywhere in the world that is capable of funding our commons, hedging the associated risks and/or steering our economy as a whole towards a greener future. Even if we take stress tests, new ESG taxonomies, standardised accounting, philanthropy and charity into account, these more linear interventions are too slow and too low in volume to awaken this sleeping giant. In this traditional approach, finance still drives our commons. It should be the other way round: our commons should drive finance.

First, we have to start thinking differently about how to secure our commons. Both funding the commons and de-risking systemic uncertainties to mobilise the trillions of private sector liquidity are intertwined, but require a new approach to money and finance. Instead of linear, proportional (subsidies, taxation) or dynamic (double materiality, feedback loops and delays) interventions, we have to start thinking in more complex ways and consider a change of monetary paradigm in order to secure our commons.

> *"There is no human security without economic security and this in consequence requires proper funding of our global commons."*

This, in turn, requires new forms of financial engineering that provide hedging instruments to de-risk uncertainties for the private sector (in particular: first-loss tranches, swaps, state guarantees) and additional conditioned liquidity to directly fund our global commons. In order to provide this additional liquidity, central banks and regulators will need to step up.

Countries that have the sovereignty to print their own currencies and own a highly convertible currency (USD, euro, yen) have the possibility to provide additional liquidity in a direct and digital way (CBDC: Central Bank Digital Currencies). Countries that have the possibility to print their own currency with a low convertibility rate require so called liquidity lines, in form of Central Bank Currency Swaps (CBCS) or repurchasing agreements (Repo) with central banks that provide a currency with a high convertibility rate. In either case central banks have a monetary tool that provides additional liquidity beyond conventional fiscal instruments.

Over 90 central banks are already experimenting with such CBDCs. CBDCs are created within the legal framework of each state's sovereign right to create its own currency. If a CBDC is linked to a digital smart contract that requires the money to be spent on our commons and provides additional liquidity to hedge the associated risks, we would then have the necessary liquidity available to secure our commons. Depending on location, we might refer to these currencies as a 'green USD', 'green euro', 'green yen' or 'green renminbi'.

This mechanism would allow us to start parallelising our currency system and steering towards a green economy. And we could start going direct: in addition to taxpayers' money and private equity for start-ups, SMEs and corporates, we could support central banks to provide additional liquidity to fund our common future.[1]

The World Bank, the IMF (via Special Drawing Rights), regional development banks (EIB, ADB, etc.) and IGOs such as the WHO would suddenly have enough upfront funding to tackle the next crisis, to implement disaster management responses, to start investing in pre-schooling, hospitals and universities, to reforest the Sahara, to create nature reserves around the world and to invest in renewables. All done with additional financial engineering tools at the intersection between the private and public sectors.

There is no human security without economic security and this in consequence requires proper funding of our global commons. We would then have entered a world where monetary policy trumps fiscal policy; where the private and public sectors are twins, operating in parallel; where central banks have an enlarged balance sheet and our global commons are secured; where sustainability finally drives finance and where we have started to think outside the box.

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Notes

1. A procedure which is in line with the Treaty of Lisbon (Articles 126 and 136(2)) and supports the traditional mandate of each central bank to keep the CPI (Consumer Price Index) below 2%. The Bank of England and Bank of Canada have already been using this procedure (referred to as a zero-coupon perpetual facility) for years.

References

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3. Brunnhuber, 2023/24, *The Economics of Transformation – A General Theory of Our Commons, Money and Sustainable Development for the 21st Century* (work in progress)