Money, Debt, People and Planet

Jakob von Uexkull, Founder of the World Future Council and the Right Livelihood Award

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 so etc. Within the current global monetary framework, this is largely true. Therefore, before we are overwhelmed by the inter-linked environmental, social and security threats facing us, we must reform this framework to ensure that money creation serves the needs of society. The current debt crisis offers an opportunity to replace debt-based money created by private banks in their interest with government-created debt-free money benefitting all, which can be used to fund the urgent ecological transformation of our production systems. Ancient China was the world's richest nation because unlike in Europe, its rulers understood that the value of money is based on trust, not gold.

“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’
Our current monetary system is damaging our well-being and social peace as well as threatening the very survival of civilisation and even life on earth. It has created the illusion of great and growing wealth. But the costs we have externalised at the expense of global ecosystems – and future generations – are now returning to remind us that much recent “growth” is only debt, fuelled by natural (and social) capital destruction.

We are ruled by cost–benefit–analyses but these are never neutral. They are 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 what to include and omit is a function of power. Over the past decades a wealthy global 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. They claim that there is no alternative to their “Washington Consensus”1 and that economic globalization has been a natural development. But, to quote US author Thomas Friedman, the “hidden hand of the market will never work without a hidden fist.”2

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.3

The claim that global economic power has shifted to Asia is doubtful. 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 been criticised e.g. in China4, Malaysia and Brazil.

From the bubble economy to the debt explosion

The recent massive bottom–up wealth transfer was made acceptable to the majority by encouraging them to go massively into debt. When the real economy can no longer achieve the growth rates required to keep the majority from questioning the ruling economic order, increasing indebtedness creates the illusion of continued and growing prosperity. The huge debt burden increasingly paralyses and

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1 The Washington Consensus describes a set of economic policy prescriptions such as fiscal austerity, privatisation and liberalisation of trade and capital markets. The package was agreed at a conference 1990 in Washington D.C. and has been demanded from countries as a precondition for loans from the International Monetary Fund (IMF) and the World Bank.
2 New York Times, 28.3.99
4 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)
destabilises governments, economies and societies. It is predicted that every Irish family of 4 will owe €200,000 by 2015.5

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 drastic cuts in public expenditure.” (‘Sunday Times’, 17.6.12)

But, in reality, every society decides autonomously how to share what it produces between its 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. Bankrupt banks can be nationalised and recapitalised, giving the tax–payers a quid–pro–quo. The Euro crisis loans have not gone to 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 European tax–payers.

Unpaid environmental debts

Growing environmental debts are much more serious, for nature provides no ‘rescue packages’. Melting glaciers and spreading deserts do not negotiate. 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.6

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 of climate change on food and nutrition security is exacerbating existing inequalities in access to resources (especially to women who are primarily responsible for food production) and contributing to injustice – those who have done least to cause the climate change problem are already suffering the impacts on one of their most fundamental human rights – the right to food.”7

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 nowhere left to enjoy the fruits of this “growth”...

6 Bill McKibben, – ‘Rolling Stone’, July 2012
7 http://www.mrfcj.org/?gclid=CNKmsZCuqbMCFXDLtAodLVwAww
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”. (‘Foreign Affairs’, Sept.-Oct. 2012). But human development and productivity require functioning ecosystems.

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

It is often forgotten that debts and assets are always equal and reducing one means reducing the other. In a debt–based money system reducing debts also reduces the money supply. Government debt reductions demanded by “the market” in many countries are likely to produce more “austerity” i.e. social capital destruction, than societies will tolerate. 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.⁸

**Debt-free money creation**

There is only one way out, namely for governments to issue new money and spend it directly into the economy to replace the debt money destroyed by debt reduction. With proper controls to ensure that this new money is used for new productive investments and the annual amount is capped, there is no reason why this should be inflationary, despite the false stories from commentators who are misinformed about the actual history of the 1920s German hyperinflation.⁹ Money against performance is not inflationary. If supply and demand grow together, prices remain stable. Central Banks have many tools and can be given the powers to ensure that this remains the case.

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

The new money 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 could also use it to make interest-free loans, e.g. to local authorities. Interest payments often double or treble the cost of infrastructure improvements.

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⁹ Contrary to what is claimed, this was not caused by “the German government printing money”. As Hjalmar Schacht, whose reforms stopped the hyper-inflation, noted in his memoirs, the German Central Bank had “lost control over the circulation of money and also stopped presiding over the credit system”. (‘The Magic of Money’, London 1967, p.68)
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.¹⁰

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. It is not unprecedented.

From the 10th Century onwards, Chinese emperors realised that the value and acceptance of money is based on trust, and issued banknotes to pay for public sector projects. This, the world's most advanced monetary system, helped build the world's wealthiest empire, able to fully use its productive potential. In Europe, however, it was believed that only precious metals, especially gold, represented real wealth. As these were scarce, Europe stayed poor and its rulers in debt while the money-lenders prospered, as they – goldsmiths, later bankers – lent money they created out of nothing against interest. They soon found that they could lend out a multiple of the value of the gold they owed or stored, issuing IOUs which became money...

Some governments have issued money in emergencies but this power has been increasingly restricted and abolished in recent decades. Thus, since 1973 national (and later EU) law obliges 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%. (Bernard Lietaer et al, ‘Money and Sustainability’ p. 125–127)

It is often claimed that it is economically inefficient for governments to “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 methods which banks have used to create excessive debt money and destabilise our economies – and then to attack the governments which recently saved them!¹¹

Debt Reduction

Debt reduction costs will reduce the value of saving, investments and insurance funds, which together hold most of the financial shares and other assets.¹² The resulting money destruction is likely to further postpone urgent 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

¹⁰ In the USA, the Fed would be bought by the government and loan repayments to banks used to pay off bank debts. In the EU, Art. 123 of the Lisbon treaty would need to be amended for the ECB to play a similar role.

¹¹ 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”.

¹² ATTAC demands cuts in the claims of “the rich, the banks, the hedge funds and the corporations” while “the savings of the salaried” should be protected. But these savings are often invested in banks, hedge funds and corporate shares. (www.attac.de/aktuell/eurokrise/forderungen)
industrial revolution of entrepreneurship and job creation, restoring the health and wealth of both people and planet!

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.

This proposal is not an alternative to taxes on financial transactions\textsuperscript{13}, CO2 emissions and on other uses and abuses of the global commons, nor to proposals to cut subsidies, shift military spending etc. All have their merits but, in a world ruled by money, ensuring that its creation serves human needs is clearly a priority.

There is now an increasing interest in this issue even in established institutions, aware that the “wealth” created by the current financial system is increasingly illusory. Thus, IMF staff members have published a working paper entitled “The Chicago Plan Revisited”\textsuperscript{14}, 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.

Studies by the Boston Consulting Group (“Back to Mesopotamia?” September 2011)\textsuperscript{15} and the German Institute for Economic Research ( “Deutsche Bank Research”, 24.8.12) present the case for major wealth levies to reduce debt burdens.

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, making asset reserve ratios largely meaningless as an institutional safety indicator...

A global emergency programme

Cornerstones of the programme to be funded, e.g. via state–owned Investment Banks, with new debt–free money could 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\textsuperscript{16}

\textsuperscript{13} Major currencies are traded by one global automatic system, regulated by the Federal Reserve Bank of New York. A FTT does not require the agreement of all countries, only a few lines of software code added to this payment system.

\textsuperscript{14} \url{http://www.imf.org/external/pubs/ft/wp/2012/wp12202.pdf}

\textsuperscript{15} The reasons given for regular debt forgiveness in ancient Mesopotamia were “freedom, justice, equity and that the strong might not oppress the weak”.
• water conservation and food security programmes based on the Belo Horizonte model\textsuperscript{17}
• the regeneration of our cities, transport systems and buildings
• the protection of biodiversity and oceans\textsuperscript{18}
• investments in sustainable forest management\textsuperscript{19}
• providing education and health for all
• strengthening women’s rights
• enhancing global security, governance and trust.

Questions and Answers

1. Would the new money created be worth less?
No, it would be normal money.

2. Why is monetary reform a priority?
Because the myth of a lack of money\textsuperscript{20} obscures an understanding of the real shortages we face and thus delays urgent action. Climate change, biodiversity loss and growing resource constraints\textsuperscript{21} represent real threats to our prosperity and security.

3. Is there not a simpler way?
We need to stop externalising costs as this is destroying our natural, social and cultural capital. We can either try to re-direct and re-distribute money flows one at a time or we can tackle the problem at its core by focussing on "pre-distribution" which will shift economic power to the production of real wealth.\textsuperscript{22}

4. How can we be sure that the new debt-free money will be used to rebuild our social, cultural and natural wealth?
Market mechanisms and Green Budgeting can ensure that it is used where it can do most good, i.e. where the ostensible lack of money causes the greatest real costs and losses. Some of these huge costs have already been calculated.\textsuperscript{23}

\textsuperscript{17} Belo Horizonte Food Security Programme 1993, Brazil – winner of the 2009 Future Policy Award. More information on the winning policies is available on our website, www.worldfuturecouncil.org.
\textsuperscript{18} As per the Future Policy Awards of 2010 and 2012. More information on the winning policies is available on our website.
\textsuperscript{19} As per the Future Policy Award 2011. More information on the winning policies is available on our website.
\textsuperscript{20} Although $29 trillion was found at short notice to bail out the financial system in the USA alone. See: James Felkerson, $29,000,000,000,000: A Detailed Look at the Fed’s Bailout by Funding Facility and Recipient, University of Missouri–Kansas City, December 2011.
\textsuperscript{21} “We don’t have enough raw materials to feed 3% growth across the world... we’re not finding them at the rate we need.” (Mark Cutifani, CEO, AngloGold Ashanti, FT 24.9.12)
\textsuperscript{22} “Pre-distribution” is a concept now used, e.g. by the British Labour Party leader Ed Miliband, to describe policies which would change the economic balance of power in society in ways such as restricting high bonus payments and above-inflation price increases. Such legislation can help re-create a sense of fairness in societies suffering from “austerity”. But they do not tackle the full costs of “austerity” policies fixated on “growth” at (almost) any human, social and environmental price.
\textsuperscript{23} Pavan Sukhdev (UNEP) calculates biodiversity losses at between US $2 trillion and US $5 trillion annually. A first study by the WFC puts costs of not maximising the uses of renewable energy at over US $3 trillion p.a.
Creating debt-free new money to kick-start the urgent greening of our production and consumption removes the paralysing claim that the change of course now demanded and required by people and planet is held up by a lack of money.

The World Future Council (WFC) The World Future Council brings the interests of future generations to the centre of policy making. Its up to 50 eminent members from around the globe have already successfully promoted change. The Council addresses challenges to our common future and provides decision makers with effective policy solutions. In-depth research underpins advocacy work for international agreements, regional policy frameworks and national lawmaking and thus produces practical and tangible results. In close collaboration with civil society actors, parliamentarians, governments, business and international organizations we identify future just policies around the globe. The results of this research then feed into our advocacy work, supporting decision makers in implementing those policies.

The World Future Council is registered as a charitable foundation in Hamburg, Germany. Our work is not possible without continuous financial support from private and institutional donors. For more information see our website: www.worldfuturecouncil.org

Contact:
World Future Council Foundation
Mexikoring 29
22297 Hamburg
+49 (0) 40 3070914-0

UK Office, London 100 Pall Mall, St. James
London SW1Y 5NQ
+44 (0) 20 7321 3810

Economist Future Finance
Dr. Matthias Kroll
+49 (0) 40 3070914-25
matthias.kroll@worldfuturecouncil.org

Policy Officer Future Finance
Suleika Reiners
+49 (0) 40 3070914-25
suleika.reiners@worldfuturecouncil.org