NEW FINANCIAL ARCHITECTURE FOR SUSTAINABILITY

A DISCUSSION PAPER

23/04/2002

Earth Summit Ireland (ESI) is the umbrella body of Irish environmental NGOs preparing for the Rio +10 World Summit on Sustainable Development in Johannesburg. We write to express concern at positions taken by the EU during PrepCom III in New York. Our understanding of the EU position was that it favoured the inclusion of targets, timeframes, mechanisms and processes related to Sustainable Development objectives in the final Johannesburg agreement which after all, were agreed at Rio 10 years ago. Therefore we are concerned that the text currently being discussed is very weak in this regard. In response to this concern and the lack of new imaginative thinking on implementation mechanisms, we make the following proposals for additional text to be put on the table for discussion at Prep Com IV.

General: Political Declarations / International Agreements

Primacy of Sustainable Development in International Governance

“Governments commit to a total reassessment and reform of the role the World Trade Organisation and the international financial institutions play within them to ensure that there are no systemic barriers to the achievement of sustainability."

Redressing Ecological Debt

“Governments acknowledge the ecological debt which results from the unequal historical use of natural resources and fundamentally inequitable global financial systems and commit to reform monetary systems and international agreements in a way which specifically redresses this inequity. "

Balancing Trade

"Governments promote measures to ensure balanced trade which protect domestic economies against speculative pressures and which are compatible with sustainability. "

Corporate Accountability

"Governments commit to initiating negotiations to set up appropriate international structures to ensure the accountability of transnational corporations."

User Compensates Principle

"That governments commit themselves to a shift to taxes and/or other reallocative mechanisms on natural resources for their more efficient use and more equitable share with current and future generations. "

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Specific: Plan of Action / Concrete Deliverables

The following outlines the context for the general principles described before and further outcomes with specific recommendations and timelines.

Primacy of Sustainable Development in International Governance

Whether something is efficient or not can only be determined in relation to one's objectives. The present global economic system, with its emphasis on the free movement of goods and capital is very efficient in terms of maximising the return to investors. The rules of the World Trade Organisation and the practices of international financial institutions such as the World Bank and the IMF have all been developed to further this type of efficiency.

The world, however, now has another objective which has to take precedence over the achievement of economic efficiency if humanity is to avoid a catastrophe. This is, of course, sustainability - the achievement of a way of living which does not diminish the stock of the four types of capital -natural, human, social and physical - which each generation hands on to the next and which together provide the stream of benefits which make our lives possible and enjoyable.

The blind pursuit of economic efficiency is a very inefficient way of achieving sustainability. Although economic efficiency has an important role to play in the achievement of sustainability, the rules under which the global system operates need to be changed to ensure that sustainability is given the priority. In other words, the world community needs to set the limits within which the world economy can operate without endangering the global environment or human society. Then, once those limits are set, the market can be used to ensure that the limited resources available are used as efficiently as possible.

Giving the highest priority to sustainability means that the assumptions, practices and rules by which the world economy and its institutions operate need to be totally re-assessed from the new perspective. In particular, any system or institution which depends on continuous economic growth for its survival cannot be regarded as sustainable. We therefore propose the following text to be agreed at Bali:

“Governments commit to a total reassessment and reform of the role the World Trade Organisation and the international financial institutions play

within them to ensure that there are no systemic barriers to the achievement of sustainability."

One of the systemic barriers to the achievement of sustainability that we think that this re-assessment would reveal is the way in which money is created. At present, most of the money used around the world is created by being lent into circulation. The problem with this is that, if, one year, more debts are repaid than new ones taken out, the money supply will shrink and cause the level of business activity to contract. Moreover, because interest has to be paid too, only if the amount of borrowing increases year by year can the money stock stay constant. As borrowing can only increase annually if the economy grows annually, this is in conflict with the sustainability objective since, as all economic activity requires the use of some of Earth's resources, continual economic growth is unsustainable on a finite planet.

Another systemic problem is that, now that gold has been effectively de-monetarised and that SDRs are no longer being issued, the growth is in the world's money supply is being provided by national or multinational currencies such as the dollar, the pound and the euro. Because these currencies originate as debts, this leads to an unstable world economy and the growth of international indebtedness. Creating the world's money in this way also confers a massive and unfair advantages on the countries which issue reserve currencies. We therefore would like to see negotiations start before Johannesburg on the details of what is a structurally simple change (albeit with considerable ramifications) so that the necessary changes can be approved at the WSSD itself.

We propose that:

1. A genuine world currency should be established by 2005 by a UN based international agency. This process to be initiated by the Marrakech signatories at Johannesburg.
2. This new world currency should be issued by being given into circulation by the new international agency rather than lent into circulation by commercial banks.

Redressing Ecological Debt

The unsustainable and unequal development of the world under the current financial system has resulted in a situation where the North ‘developed’ world is in ecological debt to the South ‘undeveloped’ world which is matched by a financial indebtedness of the South to the North. Both debts are unacceptable and unsustainable.

“Governments acknowledge the ecological debt which results from the unequal historical use of natural resources and fundamentally inequitable global financial systems and commit to reforming global monetary systems in a way which specifically redresses this inequity."

To create a world currency using the ebcu/Special Emissions Rights concept would be the best way for the 'developed' countries to acknowledge the debt. Such a system has the capability to address this imbalance and through linkage with the broadly agreed process of 'contraction and convergence' of greenhouse gas emissions to ensure the gradual redress of these imbalances in a way which is transparent, utilises the efficiencies of market forces and minimises economic disruption. The supply of the new currency be limited in a way which ensures that the overall volume of world trade is compatible with the most crucial area of global sustainability. We propose that: -

1. The initial distribution of the new currency be on the basis of population rather than economic power, as was the case with SDRs by 2005.
2. The new world currency availability should be linked to greenhouse gas emissions, SERs, by the UN based international agency so that a specific atmospheric concentration target is met on a yearly basis.

Balanced Trade

The world trading system currently lacks a mechanism to ensure that the value of each country's imports equals that of its exports, at least in the medium term, because capital inflows and outflows make a yearly balance hard to attain and can, as in the case of Mexico in 1994 and Argentina at the moment, destabilise a country's economy. Governments have to worry about whether they are attractive to foreign investment and speculation and can not therefore attend to policies that lead to social and environmental sustainability. We therefore propose the following text to be agreed:

“Governments promote measures to ensure balanced trade which protect domestic economies against speculative pressures and which are compatible with sustainability. "

A twin exchange rate system with separate capital and current (exchange) currencies offers protection to developed countries from destabilising investment flows. It also offers an in-built compensating financial mechanism which is available to ameliorate the negative sectoral effects to governments of countries which open their markets to products from the developing world, and vice versa. The sustainability argument against debt-based currencies holds for national current or exchange currency as for the recommended global currency.

1. Each country or monetary union operate two currencies, one for normal commercial exchanges, the other for savings and capital transfers. Each of these currencies would have its own floating exchange rate with the new international currency, and hence a variable exchange rate with the other. This would ensure that trade was always balanced. Exports would always equal imports and capital inflows would equal capital outflows.
2. The new national exchange currencies be spent into circulation by their governments rather than being created through the banking system on the basis of debt. This would make the level of economic activity much more stable, as the money supply would not longer depend on people's willingness to borrow.

Corporate Accountability

We urge the EU to continue to support the existing provisions as regards corporate accountability. However, we feel that transnational corporations require special attention.
Therefore we propose the following to be agreed at Bali:

“Governments commit to initiating negotiations process to set up appropriate international structures to ensure the accountability of transnational corporations.”

As part of the review of corporate accountability internationally (post Enron) there is a move to harmonise a new corporate reporting system across nations. This review provides an opportunity for national governments to reform corporate responsibility so that the benefit of limited liability to the corporation is matched by benefit to the community.

1. That each country examine its legal structures governing company / corporation formation with a view to linking the benefits of incorporation to environmental and social sustainability, to be reviewed on a regular basis with effective remedies and sanctions if breached.

User Compensates Principle

The fiscal environment in which business and governments operate is an important factor in the efficient and equitable use of natural resources and ecological systems. Current economic accounting for various historical reasons does not fully factor in the true cost of natural materials and treats as externalities, the damage to the environment of many of its practices. Thus natural resources (and ecological systems such as carbon sinks) and are not priced to reflect their real scarcity and existing and future value to the local and world community. This is a root cause of contemporary and intergenerational inequity. Unfortunately, current fiscal systems generally do not redress these unsustainable accounting and economic forces but instead compound them.

A second challenge to sustainability of the current fiscal systems derives from the mobility of investment and financial trade in goods and services that make it more and more difficult for governments to capture a necessary share for current and capital investment. This mobility has led to competition in corporate tax rates and capital allowances, a race to the bottom (along with low environmental and labour standards), which reduces the benefit of international investment in recipient countries. The inevitable outcome is that governments increasingly rely for revenue on labour taxes. Thus the burden of taxation falls unfairly on the less mobile, often the poor in both developed and developing countries, who typically have only their labour to sell.

While the Rio Declaration ‘polluter pays’ principle covered the use of ecological sink systems, the question of resource use (raw materials) has still to be addressed. We put forward for consideration a ‘user compensates’ principle’ and make explicit the fiscal mechanisms to collect these payments from users and to recompense those whose use is thereby constrained.

"That governments commit themselves to a shift to taxes and/or other reallocative mechanisms on natural resources for their more efficient use and more equitable share with current and future generations.”

However, if mobile or global natural resources, in particular oil, were priced to reflect their scarcity, majority world nations would be at an ever-greater developmental disadvantage and this must also be addressed.

In the case of local fixed resources for example land, government or corporate investment can create local monopoly values, which accrue inefficiently and inequitably to the landowners. This can also lead to asset price inflation that disadvantages later entrants to the property market (intergenerational inequity) or/and destabilising market bubbles and collapses. Sustainability requires that the increased values of local resources are a) shared with the broader community whose need has partly contributed to that value and b) they are husbanded to provide resources for future generations.

1. In the case of global or mobile natural resources such as oil, Special Emissions Rights SERs should be allocated on an equal per capita basis by a UN based international agency by 2005 to become a form of rationing, a tax over consumers and a reciprocal ‘citizens income’ to under users.

2. National governments undertake the reform of national fiscal systems to shift the burden of taxation from labour onto the use of natural resources, particularly fixed resources such as land, to promote their more efficient use and equitable share amongst current and future generations.

End.