THE WORLD FINANCIAL CRISIS AND MONEY SYSTEMS FROM A GREEN PERSPECTIVE

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Contents

Summary

This chapter opens with an analysis of the lessons that can be learned from the world financial crisis for a green perspective on money systems. It explores green responses to growth and consumerism and alternative green perspectives that have been put forward. The main focus of the chapter is the analysis of money systems in the light of the world financial crisis and the green critique of growth-oriented economic systems. Green approaches to money are explored particularly the case against having any money at all followed by proposals for local money. The central part of the chapter is an analysis of contemporary money systems and the role of the different agents including states, the public and banks. This includes an exploration of the origins and development of money systems. Finally proposals are put forward for a money system that could meet the demands of sufficiency as set out earlier in the chapter. Given that this is a new and evolving area, the chapter necessarily addresses ideas and approaches to money systems that are currently emerging. To support the reader in evaluating this new material a wide range of bibliographical sources are cited.

1. The Financial Crisis

The origins of the financial crisis lay in a dramatic expansion of the financial sector as compared with the production of goods and services within the older industrial countries. The balance sheet of the financial sector grew to many times GDP, up to eleven times in the case of Iceland. The source of this expansion was a rapid increase in money supply through bank-issued debt, mainly as personal and household debt and an increase of borrowing to finance speculation in the financial sector (Nesvetailova 2007, Morris 2008). Most incomes outside the financial sector, however, saw little growth. Debt became the mechanism by which many families sustained their lifestyle, often using the increasing asset value of their homes as security (Bajo and Roelants 2011, Langley 2008). As the crisis unfolded it became clear that such high levels of debt were very open to an economic downturn, particularly in the price of houses.

This was compounded in the United States by the expansion of subprime mortgages, whereby financially vulnerable people were encouraged to take out loans that they could not sustain. The subprime mortgage market was driven by a practice called securitization whereby mortgage companies and banks sold on the mortgage debt as a financial asset. Securitized debts were bundled up as collatorized debt obligations (CDOs) and sold to a range of investors as a safe investment. Failure to adequately realize and price the risk associated with such bundling of debt, which was also applied to other debts such as car loans and student debt, laid the whole securitization system open to contamination as defaults started to emerge (Tett 2009, Mellor 2010a). Banks and other financial investors found themselves facing insolvency with assets of uncertain value and central banks and states had to step in with rescue plans which, in turn, threatened the financial position of states themselves.

At first glance the problems of the financial sector would not seem to have a green aspect. With the scale of derivative trading alone estimated at ten times world GDP, there would not seem to be such a direct environmental impact as would be caused by a level of physical production of that magnitude. Derivatives are investments that relate only indirectly to the production of goods and services, e.g. speculation on the future price of a commodity. The expansion of the financial sector was accompanied by a globalization of production which saw a consumerist boom in the older industrial countries fed by the import of cheap goods (Yaroufakis 2011). Consumption became the prime mechanism of economic growth largely based on borrowing (Lawson 2009). The huge wealth generated in both finance and globalized production was, however, highly concentrated and the era saw greatly increased inequality. As Boyle and Simms point out, despite ‘unprecedented growth in recent decades around 1 billion people are going to bed chronically malnourished every night’ (2009:4). They go on to record that between 1960 and 1997 the wealth gap between the richest 20% in the world and the poorest had grown from 30:1 to 75:1. This was compounded as financial investments increased the flow of hot money to the newly industrializing countries and market speculation drove up the prices of raw material and food (Kallis et al 2009).

The emphasis on growth, consumerism and market efficiency appeared to ignore any impact on social inequality and the environment. Pressure on public finances resulting from the bail-outs also undermined support for initiatives such as green investment or increases in public infrastructure or welfare spending. This was compounded by the fact that public expenditure had become a major target for the neoliberal approach to finance. The debt-based expansionary era was accompanied by a demand for small government particularly in the Anglo-American economies. Privatization of public assets and private investment in public assets and services were seen as the route to prosperity. The immense level of state resources made available in the bank bailout challenged this position and the central role of the state in securing money systems re-established the role of states as monetary agents. What became clear as the financial crisis unfolded was that the financial sector could not be seen as independent. Global financial systems were entangled with each other and with state monetary systems. Similarly economies were entangled with planetary ecosystems.

However, while states spent huge amounts of money to meet the financial crisis, there was no indication that they were willing to put such a level of resource into the ecological crisis. As Perelman has pointed out, rescuing the financial sector is much easier than rescuing a damaged planet as ‘nobody knows how to recover depleted energy sources or to rescue devastated environments on a global scale’ (2003:93). If the present financial system is damaging to the environment and to the social conditions of many people, what kind of alternative economics is possible? In the light of the consumerist boom and subsequent financial crisis, the opportunity has been taken to re-evaluate economies and their money systems from a green perspective (Barry 2012, Robertson 2012, Nadal 2011, Hahnel 2011, Barbier, 2010, Boyle and Simms 2009).

2. Money Systems from a Green Perspective

There are green approaches that see no fundamental incompatibility between ecological sustainability and contemporary economic systems (Cohen 2011). However a report on the possibilities for green growth and environmental resilience in Asia and the Pacific acknowledges the limits of private finance. Arguing that economies need to be recalibrated to address environmental sustainability if they are to achieve a ‘better quality of economic growth’ the report anticipates that lack of private sector funding may prove a stumbling block (United Nations (ECSAP) and Asian Development Bank 2012:xix). While the report hopes that finance will come from the market, with green growth as a market leader, finance for such initiatives is a particular problem because of the high initial cost of more sustainable approaches with any benefit being recouped over time. What is required is ‘specific and complementary financing mechanisms to close the ‘time gap’ (2012:102). This could be met by a combination of loans, equity investment, guarantees and grants, which will undoubtedly involve public funds. While the report expresses some optimism that a path may be found to ‘green growth’ this is disputed by many green economists.

The most fundamental demand of green economics is that economies should live within their ecological means, that is, their use of resources should be compatible with the ecological dynamics of the planet (Georgescu-Roegen 1971, Herman Daly 1973). In a report for the UK Sustainable Development Commission, Tim Jackson argues that ‘assumptions that capitalism’s propensity for efficiency will allow us to stabilize the climate and protect against resource scarcity are nothing short of delusional’ (2009:7). He points out that for the global population to live at the level of the OECD countries the global economy would need to be forty times larger by the end of the twenty first century. Far from spreading prosperity, Jackson sees the dominance of the financial sector and financial drivers as markedly increasing inequality while wealth ‘trickled up to the lucky few’ (Jackson 2009:6). In fact, he sees the financial crisis as being largely triggered by the finance-led growth imperative that drove the continued expansion of debt as a means of stimulating consumption.

A major issue from a green perspective is the debt-based nature of modern money systems. The level of personal debt and financial leverage in the build up to the crisis reflected the fact that debt had become the main way money supply was increased in many contemporary economies. The constant need to repay debts with interest entailed an unsustainable growth dynamic as more money must constantly be borrowed to enable old debts to be repaid. This created destructive pressure for continuing growth and expansion in the economy (Douthwaite 2000, Cato 2009). Such pressure for growth is incompatible with green arguments for de-growth or non growth ‘steady state’ approaches to economics that take account of environmental constraints (Panayotakis 2011). Those arguing for de-growth offer alternative proposals. In terms of energy and resource use, ideas have been put forward such as contraction and convergence (where all economies contract towards a sustainable level and converge on a principle of equal usage of natural resources) or cap and share where a ‘capped’ supply of pollution or resource use permits are sold by global public authorities and the income generated is made available to poorer communities and economies rather than as in carbon trading being left to market forces (Cato 2009:111).

David Boyle and Andrew Simms call for a ‘new economics’ that will deal with the triple crises of credit, climate change and energy (2009:3) and there have been several proposals for a green new deal, echoing Roosevelt’s New Deal following the 1930s Depression. In 2008 the UK’s New Economics Foundation’s version of a Green New Deal called for government led investment in energy efficiency and innovations such as micro-generation of power, green jobs and low carbon infrastructure, a windfall tax on profits of oil and gas companies, financial incentives for green investment and reduced energy usage, re-regulated green banking based on smaller banks, capital controls to stop destabilizing capital flows, prevention of speculative profits such as derivatives and a clampdown on tax evasion, tax avoidance and tax havens (Green New Deal Group 2008, Boyle and Simms 2009:157-8). Some countries have worked out detailed Green New Deal plans such as South Korea which sees expenditure of $36,280 million producing 960,000 jobs (Barbier 2010:176).

For Jackson, a green economy would need to be ‘ecologically and socially literate, ending the folly of separating economy from society and environment’ (Jackson 2009:10). It would need to limit the impact of human activity on the natural environment while maintaining or enhancing quality of life. Less must become more. Arguments for de-growth raise questions about what level of consumption is sustainable. One principle that has been put forward is ‘sufficiency’ or ‘enough’ where the economic system would remove incentives for over production and over consumption above the level necessary for a needs based economy (Salleh 2009, Mellor 2010a 2010b). A sufficiency green economy would aim to provide enough goods and services to enable each person to flourish without destructive growth. As sufficiency for one must mean sufficiency for all, it would be necessary to meet human needs on an egalitarian basis. Sufficiency economics would remove the impetus for environmentally damaging growth and create the potential for socially just de-growth. For Panayotakis this must be based on principles of social justice and democracy: ‘only a society based on economic democracy can manage scarcity in a radical and humane fashion’ (201:6). Economic democracy would mean ensuring that economic priorities were determined in the interests of the most vulnerable members of the community (Hutchinson, Mellor and Olsen 2002:209).

What kind of money system could support a sufficiency green economy? As Richard Douthwaite has argued, ‘sustainability requires a money supply system that can run satisfactorily if growth stops’ (1999:27). The first question must be why have a money system at all?

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