Why The Monetary System Matters…..*

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We, concerned with sustainability in general – with issues like climate change, environmental degradation, food and water shortages, population growth, income and wealth disparity and energy use – tend not to worry about the money system. Nor do we tend to look for solutions that involve monetary innovations. Even those economists who are also concerned about sustainability in principle are seldom aware that our money system systematically encourages unsustainable behavior patterns that may end up threatening human survival on this planet. In fact, this presentation shows that the current money system is both a crucial part of the overall sustainability 'problem' and a vital part of any solution. It should make clear that awareness of this 'Missing Link' is an absolute imperative for economists, environmentalists and anyone else trying to address sustainability at a national, regional or global level. Aiming for sustainability without restructuring our money system is a naïve approach, doomed to failure.

The money system in it's current form is bad for social and environmental sustainability. But perhaps more surprisingly – that the money system is bad for the money system itself. For example: It is in this colossal market that the 2008 banking crisis broke out. As with every previous banking crash, governments felt they had no choice but to rescue the banking system, at whatever cost to the taxpayers. While this is clearly the biggest crisis we have experienced since the 1930s, it is not the first one. According to IMF data, there were 145 countries experiencing banking crises, 208 monetary crashes and 72 sovereign debt crises between 1970 and 2010: a total of 425 systemic crises, i.e. an average of more than ten countries in crisis every year!
Unless we fundamentally restructure it, we cannot achieve monetary stability. Indeed, this presentation also demonstrates that monetary stability itself is possible if, and only if, we apply systemic biomimicry – that is to say, if we complement the prevailing monetary monopoly with what we call a parallel complementary ‚monetary ecosystem'.

Our world is facing the immense challenges of a two-fold sustainability crisis. On one hand, climate change, rising greenhouse gas emissions and spikes in food and energy prices signal that our ways of producing and consuming goods and services have become unsustainable. On the other, repeated financial and monetary crises remind us that our money system has its own problems. The efforts to prop up and ‚save' this money system during the 2007-2008 banking crash, followed by unsuccessful attempts to contain the toxic economic fallout with a ‘Keynesian stimulus’, have given rise to stark increases in government indebtedness. In the wake of the sovereign-debt and euro crisis, both the United States and the EU governments are currently being driven to financial extremes. Pensions, unemployment benefits and other social safety nets as well as investment in a post-carbon economy are all in jeopardy at precisely the time when they are most needed. In parallel, many public assets are in the process of being privatized.

Monetary or financial crises can be highly destructive and are obviously not compatible with sustainability. What can be more difficult to perceive is how some mechanisms built into our current money system shape individual and collective behaviors, even when it is not in crisis. However, there are at least five other mechanisms that turn out to be directly incompatible with sustainability. They are:

• Amplification of boom and bust cycles: Banks provide or withhold funding to the same sectors or countries at the same time, thus amplifying the business cycle towards boom or bust. Such amplification is detrimental for everyone, including the banking sector itself.

• Short-term thinking: ‘Discounted cash flow’ is standard practice in any investment evaluation. Because bank-debt money carries interest, the discounting of all future costs or incomes inevitably tends to lead to short-term thinking.

• Compulsory growth: The process of compound interest or interest on interest imposes exponential growth on the economy. Yet exponential growth is, by definition, unsustainable in a finite world.

• Concentration of wealth: While the global middle class is increasing -first time since the industrial age- the income and wealth gap is increasing on a national and regional level, too. Such inequalities generate a broad range of social problems and are also detrimental to economic growth. Beyond the economic issue, the very survival of democracy may be at stake.

• Devaluation of social capital: Social capital which is built on mutual trust and results in collaborative action has always been difficult to measure. Recent scientific studies show that money tends to promote selfish and non-collaborative behaviors. These behaviors are not compatible with long-term sustainability.

Far from being a behaviorally neutral and passive medium of exchange, as generally assumed, conventional money deeply shapes a range of behavior patterns, of which the five listed above are incompatible with sustainability. The continual imposition of a monopoly of this type of currency thus directly affects the future of humanity on our planet.

It would be naïve to think of a parallel, complementary ‚monetary ecosystem‘ as a magic bullet to solve all our current and future problems. However, rethinking our money is a necessary ingredient in any effective solution towards a common sustainable future. We can no longer afford to overlook a complementary, parallel currency-system as the ‘Missing Link’ that can deliver a money system which promotes sustainability rather than undermining it at every turn.

Our money system systematically undermines sustainability initiatives and objectives. It is also the structural cause common to all financial and monetary instability. We tend to assume that we must have a single, monopolistic currency, funded through bank debt, enforced by a central bank. In fact, the present system is outdated, brittle and unfit for purpose (witness the eurozone crisis). Like any other monoculture, it’s profitable at first but ultimately a recipe for economic and environmental disaster. The alternative is a monetary ‘ecosystem’, with complementary currencies alongside the conventional one. This is more flexible, resilient, fair and sustainable. Societies worked like this in the past. So can we.

*Literature and References available through the author: www.stefan-brunnhuber.de