XI ECOECO
VII Congreso Iberoamericano Desarollo y Ambiente

XI ENCONTRO NACIONAL DA ECOECO
Araraquara-SP - Brasil

MONETARY DIVERSITY FOR SUSTAINABILITY OF SOCIOECOLOGICAL SYSTEMS

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Monetary Diversity for Sustainability of Socioecological Systems

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The financial crisis that began in the US in 2007, whose negative effects have spread worldwide, has sparkled a lively debate about financial markets regulation and the way money is created by commercial banks.

This paper aims at showing that fixing the second problem it as important as fixing the first, or even more. It can solve social and environmental problems and to contribute to the sustainability of socio-ecological systems in both urban and rural areas.

One of the initiatives in this regard, Positive Money, which has the support of economists such as Herman E. Daly, Victoria Chick, among others, is driving the British society to discuss and to try to understand how money is created, as well as presenting proposals about new forms of money creation (www.positivemoney.org). The idea is to end the current practice of creating money by commercial banks.

According to the Central Bank “commercial banks create money, in the form of bank deposits, by making new loans. When a bank makes a loan, for example to someone taking out a mortgage to buy a house, it does not typically do so by giving them thousands of pounds worth of banknotes. Instead, it credits their bank account with a bank deposit of the size of the mortgage”. (McLeay et al. 2014a, p.3). In other words, money is created through debt. There are some important details related to the money creation process that the Bank of England does not present in that text, such as the dependence of commercial banks to the money market to obtain liquidity, which was described in detail by Milne (2009).

Positive Money has as a major goal to remove the power of commercial banks to create money, attributing it exclusively to the government. The money so created will be named “sovereign money”. According to Jackson (2013) the government would issue bonds with a coupon of zero (without interest) and being perpetual (no expiration date), which would be purchased by the central bank. Such bonds are not public debt, therefore there is no interest rate and the government has no obligation to return them. The central bank would have the exclusive responsibility of raising as much money as necessary to ensure the non-inflationary growth. Administer the money directly, rather than using interest rates to influence lending behavior and creation of money as is currently done. Decisions on the creation of money occur independently of the government, through a Money Creation Committee, or by the current committee. The Committee does not stipulate interest rates, which would be stipulated by the market.

One must consider, however, that although the type of money proposed by the movement, 'sovereign money', will be created without the need for borrowing by the government, it is supposed to be distributed through commercial banks that lend charging positive interest rates and which must have the appropriate deposits in their liabilities in order to make loans.

The key point of our criticism is precisely this fact of the distribution of the money through the same institutions that use archaic business models. According to Lietaer et al. (2012) there are five reasons why this is bad for the sustainability of a socio-ecological system:

1. pro-cyclical character of the money creation process which amplifies both the upturns and downturns of the business cycle;

2. systematic encouragement of short-termism because positive interest rates estimulate 'rational' investors to discount the future;

3. compulsory growth due to the mechanism of compound interest;

4. concentration of wealth;

5. devaluation of social capital.

Another point concerns the governance of creation, destruction and money management in an economic system. As mentioned previously, Positive Money aims to focus on the process of creating money in government hands, the 'sovereign money'. It will be the government's monopoly on one, among different types of money (Lietaer et al. 2012). We defend the idea that beyond the sovereign money, it is important that properly trained and organized people can create different types of money to solve their socio-ecological problems.

We are to going to show the viability of this process of money creation through three case studies. The first one is the case of WIR, in Switzerland, that in the last 70 years has been benefiting small and medium enterprises, especially in periods of financial crises. The WIR system uses the mutual credit clearing system (Greco Jr, 2009) instead of debt created money, which does not depend of the financial system.

The second and the third ones are proposals (not implemented yet) which show the potential applications in environmental area. They are the case of Kipu Biwa in Japan (Lietaer et al., 2012), and 'Campana' in Costa Rica (Paiva Sobrinho et al.2015). Both cases show that it is possible to create types of money to solve socio-ecological problems, without indebtedness.

Accordingly to Lietaer et al. (2012), the increase of different types of money in the economic system improve its resilience and its sustainability.