Supplanting the Holy Trinity:
Creating a New Global Architecture that Serves People and Planet

Abstract. The relationship between finance and sustainability is undertheorised. This paper provides a critique of the global financial architecture in the context of the financial crisis of 2008. The authors argue that the unregulated nature of global finance, and particularly the creation of money as private debt, is inherently stable and was the direct cause of the financial crash. The critique of the IMF, World Bank and WTO focuses on their lack of political accountability, their hegemonic domination of the US, and their failure to link the issue of finance creation to that of sustainability. The authors suggest three principles to guide the reconstruction of global financial institutions: stability, democratic accountability, equity, and sustainability. They sketch a structure for a new tripartite system that achieves these principles.

1. Introduction

Although money has been a key tool for maintaining and managing the hegemony of capitalist interests over world resources since the Second World War, this area of economic life has been under-theorised. This paper offers a critique and explanation of how the global system works currently and proposes an improved design that would offer stability and sustainability.

As Peet argues, the tripartite system of global finance—made up of the IMF, the World Bank and initially the GATT which was replaced by the WTO—has been dominated throughout its history by the interests of the USA to the neglect of the interests of the majority world (Peet, 2009). In more recent years we have witnessed the breakdown of this system which has led to massive monetary inflation and the financial crash of 2008 (Davidson, 2008). As against the nostrums of the monetarists, monetary expansion in itself is not a bad thing provided it is used constructively within the economy. A greatly expanded money supply could have been used to achieve many of the development aims that a 'lack of money' had denied, but instead of being seen as a public resource, most of this money was issued as bank credit (debt) and increasingly for speculative purposes (Mellor, 2010). Issuing money as debt introduces a growth dynamic which either diverts money to speculative purposes, or, if directed to productive investment increases pressure on planetary resources thus exacerbating the ecological crisis (Cato, 2006). This situation has been facilitated by the deregulation of financial markets and the current non-existence of a political forum capable of taking control over the economic mayhem that the financialised economy is creating. The role of the IMF as lender of last resort has similarly been diminished and depoliticised.

The purpose of this paper is to propose an alternative system for the organisation of the global economy, one which has stability, equity and sustainability as its dominant aims. We propose this structure in final section of the paper. First, we outline the chaotic and unstable nature of the current global financial architecture, in Section 2, where we also offer and explanation for the financial crisis of 2008. Section 3 explores the political economy of global finance since 1945, as a preparation for our argument that the revised system should ensure a commitment to justice and equity that has been notably absent during the past 65 years. Section 4 identifies the principles that we believe should guide a global financial system: democratic accountability, equity and sustainability. In Section 5 we propose a new tripartite structure which enshrines these principles before offering some brief conclusions in Section 6.

2. Unregulated Global Finance

Arestis and colleagues point out that the first age of unregulated financial globalization (1870-1913) resulted in a series of banking crises caused by speculation, excessive lending and poorly managed funds, whereas the period 1945 to the early 1970s did not see banking crises, although there were currency crises (Arestis *et al*., 2005: 508). The recent crisis has seen both a banking and a fiscal crisis which is now rapidly becoming a currency crisis, particularly in the eurozone. The main lesson is that within the financial system the distinction between public and private cannot be made. The unfettered movement of capital is not without political consequences. Equally, government finances are also inextricably linked to the banking sector with bank credit as the dominant means of money issue (Mellor 2010).

The Greek situation demonstrates the problem of an interconnected global financial system. When the new socialist government took over in October 2009 it revealed that the previous government had hidden deficits in its accounts (with the help of Goldman Sachs). This was a 'Bear Stearns' moment. Early action at this point could have stabilised the European monetary system pro tem (but not in the longer term without reform) but the leading European economies dithered, particularly Germany where the government was facing regional elections. The Greek Bear Stearns rapidly became Lehman Brothers. Greece is a small economy within the EU (around 3% of GDP) and around 0.5% of the world economy. Its total debt was around 300 billion euros. Its immediate need in October was around 8 billion euros. This is not a large sum in comparison with the bank rescue packages. Failure to act promptly (and generously) meant that by April 2010 Greece was facing short term interest rates of up to 38% with an immediate need of up to a hundred billion euros. What was needed in the early stages was an injection of euros which could have been issued by the ECB. Why did this not happen?

Because of the ideology that money must only be issued by the private sector (as represented by the banks) and governments must not directly access ('print') money, the ECB is not empowered to lend to governments. It can only lend to the financial system as a 'private' entity. In this the ECB is much more restricted than national central banks. The ECB approach makes the assumption that governments and financial systems are separate, but this is not the case. As demonstrated by the 2007-8 financial crisis, the financial problems of the private sector, particularly its debt crisis became a debt crisis for states. As Porter argues 'the costs of financial crises have been borne to a large degree by citizens of the affected countries and only minimally by financial market actors, even though these actors' search for high returns was a major factor in bringing the crises about' (Porter, 2005: 187-8). Helleiner and Pagliari agree that the crisis has revealed that it is public – not private – authorities that provide the ultimate political foundation for global financial markets' (2010: 89). Yet it is a political failure to understand this that has allowed transnational capitalism to exercise 'regulatory capture'. As states poured money into the banking sector they were forced through their ideology of privatised money to borrow from the 'financial market'. What then, is the financial market? The banks whose debt they had just rescued. Banks made money lending to states through the front door who had just rescued them through the back door.

Although the Greek deficit was not directly related to the bank bailout, it throws into relief the public/private interconnection. Over the years, banks across Europe have lent to the

Greek government. As European governments were not willing to provide support, the banks faced losing billions of euros in bad debt. If banks in France or Germany became threatened it would be possible they would need to be rescued by the very same governments who would not support the Greeks in the first place, at much greater cost. The problem of sovereign debt is the link between government expenditure and the bond market. The bond market is massive. The European Capital Markets Institute reports that there are five trillion euros of eurozone government debt outstanding and nearly a trillion euros of bonds are issued each year. Many states have had to raise huge amounts of money to bail out their banks and are now facing the consequences in the bond markets. If the bond market were an orderly transfer of money between governments and the private sector the fact that governments are 'in hock' to the money markets would not be so problematic. However the markets are not orderly; they are speculative. The bonds are themselves securitised and have become the object of derivative trade and speculation. The markets have no incentive to create a stable source of money for governments to manage their affairs ahead of taxation, but rather scramble to identify and speculate against vulnerable targets. They are not looking to the steady positive flow of tax income that builds profit but the ability to 'short' in a volatile and crashing market. As countries go down, profits go up provided bond-holders are on the right side of the market.

If sovereign debt is a problem to globalised finance, so is sovereign wealth. The era of globalised finance has seen a marked growth of sovereign wealth funds. The total held in 2007 was around $3 trillion (Tett, 2009: 245) but this is expected to rise dramatically in the future. Market intervention by sovereign wealth funds muddies the waters between public and private finance. Together with the holding of currency reserves and government debt there seems to be a new mercantilism as states try to establish themselves in a dominant financial position. For example, China now holds 25% of world international reserves, while by 2006 the US had a deficit of $811 billion and foreign monetary authorities had dollar reserves of $440 billion (Alessandrini and Fratianni, 2008: 7). The importance of currency dominance might lead us to speculate whether a threat to a state's financial interests would lead to the use of that other aspect of state power, military force? Arguably this has already happened. The second Iraq war could be seen as a conflict about currency. If Saddam Hussein were to designate his oil in euros, this would threaten the economic interests of the USA and UK. Will there at some point be literal battles between reserve currencies? This alone should make the case for a global currency, or at least a system of international payments, beyond the control of any one state. The aim of the euro was to unite previously warring countries. It has been a flawed exercise because it did not embrace a political and economic union (Whyman *et al*., 2006). The reform of money is a necessary, but not a sufficient, engine of social change. The euro also failed to make the vital link between the monetary system and the state. States have been left with responsibility for running their economies without the essential tool of control over money supply. Worse, the states operate under very strict fiscal rules.

What must become clear is that it is a misnomer to set up the global 'private' money markets against the 'public' nature of states or global governing bodies. As the financial crisis has shown, states are responsible for the survival of their financial systems, and given the internationalism of finance that means the global financial system. At the same time the money markets are composed of sovereign wealth funds, banks, and institutional funds as well as commercial investors. Even where investors are purely speculative they are often borrowing from regulated banks and therefore their activities impact on the public in several ways. First their activities can affect the functioning of national economies and the capacities of states to act. Second they impact through potential losses in the banking system. Third they are often investing institutional funds on which pensions etc rely.

Why have the global financial markets become so dominant? Helleiner and Pagliari argue that this is because of the lack of opposition: 'the capacity of private sector associations to shape international regulatory outcomes has been boosted by the relative absence of countervailing transnationally organized societal interests' (2010: 13). However the financial crisis and the use of public money to secure the banks have now politicized financial regulation and there is the opportunity for radical change. Porter makes the case that democratic control of the global financial system is not only desirable for the stability of global finance, it is necessary (2005: 188). However political influence alone is not enough. As Abdelal (2007) argues, the push towards a neo-liberal attitude to capital flows was politically driven, particularly in the monetary design of the eurozone. In fact he argues it was the politicians of the left who in their fervent aim to overcome nationalism opened the door to the free mobility of capital. It is not political democracy that should drive the governance of global finance but economic democracy. This was the case made by the anti-globalisation political activists who prevented the implementation of the WTO's most radical aim, the Multilateral Agreement on Investment (Clarke, 1999).

Central to the neo-liberal global financial system has been the free flow of money. As the Bretton Woods system unravelled, capitalist finance slipped the boundaries of national economies and spread its tentacles around the globe (Hildyard, 2008). National currencies subject to market forces proved a field day for speculators, while creating severe economic problems for the countries concerned. Globalised production was able to play off hard currencies against soft currencies to maximise profits. A 'hard' reserve currency country, like the US, was able to flood the world with dollars, drawing in goods and services from around the world. As Graham Turner argues, the financial collapse was largely caused by globalised production. As western capital moved offshore to cheap labour areas and production declined in the home economies, the classic problem of the failure to realise profit emerged. There was plenty of surplus value in the goods as they were re-imported for sale, but a limit to purchasing power. Neither the workforce in the producer countries or the consumers in the old industrial countries had sufficient money to buy the products. This meant that countries like the US ran huge deficits while western consumers bridged the gap with debt. As the deficits and profits were recycled, the excess money got sucked into inflationary investment cycles including house price rises: 'the sharp rise in house prices was the logical outcome of Western companies aggressively cutting labour costs by shifting jobs abroad' (Turner, 2008:61).

Rawi Abdelal reminds us that globalised production and the free movement of capital is relatively recent, largely stemming from the 1980s (2007: 213). He argues that globalised finance as an orthodoxy peaked in the late 1990s and the case for reform is being discussed in many quarters. As he points out, 'the globalization of finance is neither inexorable nor inevitable'; however, while people accept the orthodoxy 'we may not recognise the inherent fragility of the underpinnings of a world that allows such extraordinary mobility of capital' (Abdelal, 2007: 223).

3. A History of Currency Hegemony

The current global financial architecture is a ruin of what was once the shiny edifice built at Bretton Woods. The aim of the establishment of such a structure was political: to prevent the inter-nation conflict over trade that had led to the two worlds wars. As Peet points out, 'the war thus brought back together economics and politics which classical liberalism had long separated.' (2009: 41). However, the political voices heard at the conference were strongly restrained: as Miksell argues, 'Bretton Woods was a drafting meeting, with the substance having been largely settled previously by the US and UK delegations supported by the Canadians' (1994: 34). The Bretton Woods system, variously regarded as the triumph of post-war negotiation and the bastion of prosperity, or, from a critical Marxist position 'a system for the transnational governance of capitalist accumulation' (Leyshon and Tickell, 1994: 1878), was able to produce the conditions necessary for the rapid expansion of capitalism and persistent rates of growth that had not been seen previously and have not been repeated (Galbraith, 1994).

This halcyon period lasted for some 20 years, before the tensions inherent in the design of the system—primarily its reliance on one nation's currency as the global reserve unit—led to a series of crises that culminated in its breakdown. The irony of the tripartite institutions regulating the global economy is that 'All three govern an economy that their neoliberal ideology insists is best left institutionally ungoverned' (Peet, 2009: 31). Peet goes on to argue that 'global finance capitalism is a new social formation replacing corporate industrial capitalism in the late twentieth century. It results from a massive redirection of income flows toward the rich that occurs under the presently prevailing neoliberal policy regime.' (2009: 35)

Davidson argues that this was not the case in the early period. Despite the central place of dollar, the US avoided accumulating huge surplus reserves:

'While exchange rates were fixed under the Bretton Woods Agreement, in the early years after the second world war the United States avoided amassing surplus international reserves by providing grants to the war torn nations, initially via the Marshall Plan and then via other foreign aid programs. In essence, the United States accepted the Keynes Plan suggestion that it is in the best interest of all nations if the major creditor nation bear the major burden of reducing trade imbalances and international payments adjustments.' (2008: 3)

However, having a national currency as the global numeraire is inherently unstable:

'Having engendered a state of dynamic interdependency between the US economy and the global economy, the hegemonic position of the United States consequently posed the constant threat of crisis tendencies being transmitted from the domestic US economy to the world economy and vice versa' (Leyshon and Tickell, 1994: 1877).

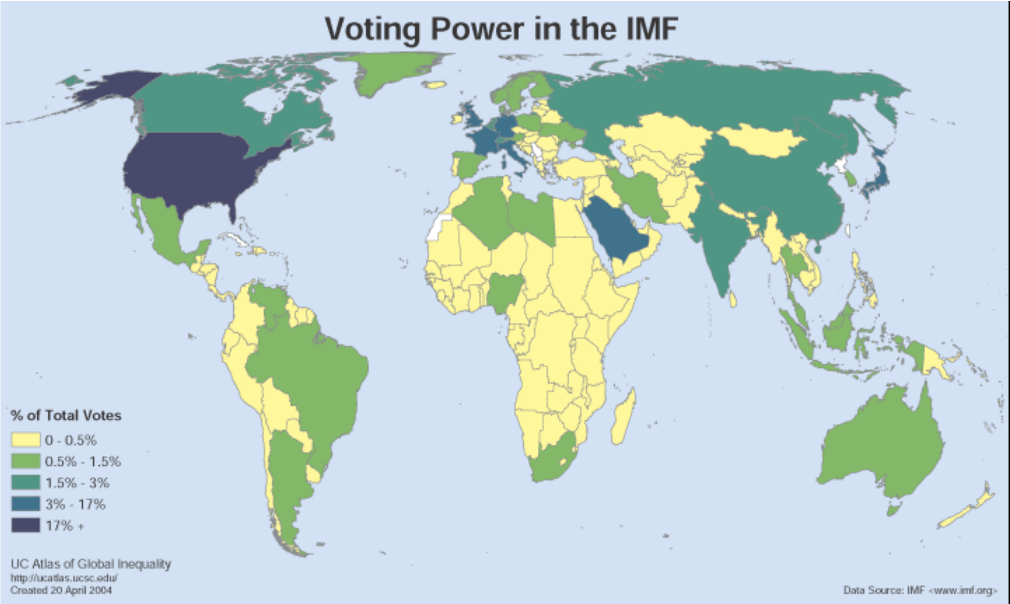
As Altvater argues, 'the international monetary system was . . . eclipsed by the functional requirements of the international credit system, and the IMF changed from an institution regulating money as a means of circulation to one guaranteeing money as a means of payment and defending precarious international credit relations. In this way, the institutional regulation of financial instabilities was quite feasible for a certain period. But institutions are designed for the carrying out of certain functions. The [Bretton Woods institutions were] best suited to reckon institutionally with the circulatory function of money; and ... can no longer do this when the function of money as a means of payment predominates within the expanding credit system' (1993, page 121 cited in Leyshon and Tickell 1994:1878)

In the establishment of the IMF, the issue of quotas was central. Nation-states deposited a combination of their domestic currencies and gold reserves with the IMF. These reserves reflected the economic strength of the countries, and was then made the basis of voting rights in the new body. Hence, the relative power of countries in 1945, which was based on their performance in the war, their success in the 19th-century colonial adventures, i.e. in a range of essentially military-political factors, was set in stone and made the basis of the economic hegemony for the following 65 years. These were then translated into Special Drawing Rights (SDRs) indicating the extent of countries' potential borrowing from the bank. Table 1 gives the figures for the SDR allocations today; the map reproduced in Figure1 illustrates graphically how unequally these voting rights are apportioned. Although some attempts have been made to adjust the position since 1945, the overwhelming power still rests with the US, which controls nearly 17% of the votes. The countries of the OECD hold a controlling stake in the world's bank.

Table 1. *SDR quotas and votes on the IMF Board of Governers, by country*

Country	Quota (m. SDRs)	Votes (%)
Australia	3,236	1.47
Canada	6,369	2.88
China	8,090	3.65
France	10,738	4.85
Germany	13,008	5.87
India	4,158	1.88
Indonesia	2,079	0.95
Italy	7,055	3.19
Japan	13,312	6.01
Mexico	3,152	1.43
Netherlands	5,162	2.34
Russia	5,945	2.69
Saudia Arabia	6,985	3.16
Spain	3,048	1.38
Sweden	2,395	1.09
Switzerland	3,458	1.57
United Kingdom	10,738	4.85
United States	37,149	16.74
Venezuela	2,659	1.21
Rest of world		33.79

Source: IMF website:
http://www.imf.org/external/np/sec/memdir/members.htm



At Bretton Woods, the IMF was the central organisation that was discussed by the parties. The World Bank was a secondary concern, included to suggest a commitment to equity and development. It was a collection of five specialist bodies that would between them support national economies whose development was held back by lack of access to cash, the most importance of which was the International Bank for Reconstruction and Development. The reconstruction that was required initially was that of the European economies, that had been devastated by World War II. According to Peet (2009), the US was concerned to see its export markets flourishing and was also aware of the rise in far-left politics that resulted from post-war economic hardship, in both Europe and Latin America. Under the presidency of McNamara from 1968-1981, the bank turned its attentions more to the new countries of Africa, providing financial support for their development, but within the overarching framework of a private, market economy. This has distorted the development of the post-colonial nations, while preventing them following their own paths to economic security.

The systems of trade and global finance cannot be separated, since trade between countries is denominated in a certain currency and external trade balances are also settled in a currency, and in both cases this currency has in most cases since the end of WWII been the dollar. Thus the third international institution—originally the General Agreement on Tariffs and Trade (GATT), changing its name to the World Trade Organisation (WTO) in 1994—had the role of extending the number of countries and goods that were traded on global markets, and negotiating conditions and terms of global trade.

A analysis of the workings of the 'unholy trinity' during the past 65 years makes clear the importance of addressing this study through the lens of political economy, rather than mere economics. The countries who established the institutions and wrote the rules have benefited greatly from them. They have also used the institutions and their financial power to impose their particular pattern for economic development on the countries of the world who might otherwise have chosen a different path. The role of the IMF, World Bank and World Trade Organisation—working jointly and with a shared ideological orientation—in establishing the hegemony of the market economy throughout the world in the 65 years since Bretton Woods cannot be over-estimated.

4. Re-designing the architecture

So far we have argued, first, that the global financial architecture is fundamentally unstable and, second, that it has neither been established democratically nor designed to serve all the world's peoples equally. In this section, we argue for the key features of a revised global system in response to these weaknesses. In addition, we suggest a way in which the new system might also enable the world's people to address the most serious problem facing the human community: that of climate change.

Stability

The lesson has been learnt from the Greek situation that a single currency alone is not the solution. What is needed is a political and economic strategy to underpin such a currency. Keynes wanted an international investment bank and an economics board to ensure control of prices and the trade cycle. A world currency would be little use without a global government that can deal with distribution issues. Democratic control of currency and banking can only take place within a sphere of public authority. In the absence of a global democratic forum the most immediately feasible level is the nation state, although for green economists it would be better to align money systems with ecological systems such as bioregions (Cato 2009*a* 150–151). Whatever the level, any decisions made locally will be overwhelmed if currencies cannot be insulated from each other. Global inequality will also persist if currencies such as the dollar or the euro continue to dominate. Jane D'Arista suggests that one way around this problem would be to enable all countries to make transnational payments in their own currency (2003:202). This would remove the need for countries to earn money from a stronger currency before being able to trade internationally, but it would not remove the opportunity to speculate between currencies. Nor would it eliminate the inequalities between countries.

Another solution would be to put a barrier between national currencies, that is, to have a currency of account at the global level. The answer that Keynes proposed was a global money system. Keynes warned that free trade, flexible exchange rates and free movement of capital was incompatible with maintaining full employment. Keynes wanted countries to interact via a buffer mechanism, the *bancor* (bank gold) (Cato, 2009*a*: 77) through an International Clearing and Central Bank. Each country would decide their own currency fix to the bancor and some fluctuations would be allowed. Countries would buy bancors from the ICB but they were not convertible. This would be a flexible international payments system which would also have a mechanism to balance world trade whereby surplus economies would compensate debtor economies. Countries would trade using the bancor and settle their accounts. High positive or negative balances would be penalised. To kick it off countries would be allocated bancors according to their previous levels of trade. An unused credit balance would be cancelled after a period of time. Deficit countries would be forced to devalue (but creditor countries would not be forced to revalue). This part of the Bretton Woods discussion was never implemented; instead there was a gold exchange rate mechanism based around the dollar. Keynes aimed to deal with this problem by concluding that an essential improvement in designing any international payments system requires transferring the onus of adjustment from the debtor to the creditor position. This transfer would substitute an expansionist, in place of a contractionist, pressure on world trade (Keynes, 1941, pp. 29-30 cited in Davidson 2008: 8).

Following Keynes, Davidson has argued for an International Monetary Clearing Union (IMCU) but not a central bank or currency. Davidson sees the international money clearing union system as based on an agreed unit (IMCU) which would become the new international reserve asset. The states themselves are free to set their exchange rates against the IMCU, which then operates as the international standard, although by fiat rather than through its relationship to gold or any other scarce and valuable commodity. The IMCU would insulate economies from each other (Davidson 2008:300–305). Davidson (2008: 19) proposes a 'trigger mechanism to encourage any creditor nation to spend what is deemed (in advance) by agreement of the international community to be "excessive" credit balances accumulated by running current account surpluses.' These creditor nations can rebalance their accounts by increasing their spending on imports or FDI projects, or by transferring IMCUs to members who are in deficit. The exchange rate is determined by individual countries. The ICU can provide overdrafts. Credit balances would be eliminated after a time providing an incentive to spend them or transfer them to a poorer country.

Democratic Accountability

Table 1 and Figure 1 indicated how power in the existing institutions is dominated by the Western, developed economies. They have enabled these countries to continue to enjoy extravagant lifestyles at the expense of others thus ensuring the 'making' of poverty in the South (Lines, 2008). The breakdown of the Doha Round of WTO negotiations in July 2008 indicates the refusal of the South for this unequal relationship to continue. The resistance of China and India to allow their currencies to be convertible is a similar indication of challenge to the continuation of US hegemony in the global economy, as is the discussion of the need for a new neutral currency (such as the virtual currency the SDR) for the settlement of external trade balances (Duncan, 2009).

Within their own national boundaries, states are finding themselves incapable of making democratic decisions for fear of the response of the financial markets. The UK general elections of 2010 offer evidence of pressure being exerted to favour the outright victory of the Conservative government with a working majority, as opposed to a balanced parliament and coalition government (Oakley and Eaglesham, 2010). The round of downgrading of the value of government's national debt by unaccountable but none the less powerful 'credit-rating agencies' throughout the first half of 2010 is a similar indication of the loss of democratic authority by national governments, who must tailor their policies to ensure support from these shadowy organisations (Willis, 2010).

The relinquishing of power over credit controls and exchange controls through processes such as the UK's Big Bang in 1986 have deprived politicians of all monetary tools except the interest rate. The European countries that entered the Eurozone in 2000 also abnegated that key tool of economic management (Whyman *et al*., 2006), but even for those countries that still maintain currency sovereignty in theory, in practice the free flow of capital limits their ability to control monetary policy within their borders:

'As private capital began increasingly to circuit globally on a deregulated basis, Keynesian nation-states progressively lost control of one of the most important macroeconomic levers—the setting of interest rates. The loss of interest rate sovereignty was a significant contributor to the breakdown of the fragile international order established under Fordism' (Leyshon and Tickell, 1994: 1878).

We would also argue that governments have lost control of their ability to create their own money supply, relinquishing this in favour of private banks, and have hence become dependent on the money markets (Mellor, 2010).

Democratic accountability must be both economic and representational. It is important that global financial decision making is not left to technocrats. This is particularly important when the technocrats have been working to an ideological agenda. As we have argued economic democracy is as vital as political democracy. Even if there were a commitment to economic and political accountability there is a structural weakness with the global regulatory system. By the early 21st century the volume of world trade was nine times larger than in 1945. The comparative level for funding would require the IMF to hold around $2.5 trillion to manage a crisis where as in the period before the crisis it had only $290 billion (Arestis *et al.*, 2005:521).

Equity

Given that the tripartite system was established by a narrow range of countries, and its rules designed to guarantee their domination of decision-making it is unsurprising that its consequences for countries that were not even present in the discussions have been negative. This process has been exacerbated by the free flow of cash following the breakdown of political control over domestic economies, a policy followed first by the powerful Western nations and imposed later on the countries of the South:

‘The global financial free-for-all has vastly increased global inequality. It is characteristic of a freely convertible international standard that it throws the main burden of adjustment on the country which is the debtor position on the international balance of payments - that is, on the country which is (in this context) by hypothesis the weaker and above all the smaller in comparison with the other side of the scales which (for this purpose) is the rest of the world’ (Davidson, 2008).

Arestis et al argue that a key to global inequality is the lack of equitable capacity to raise international loans. They see a global single currency as the only sure basis of a ‘reliable means of hoarding and for international payments’ (Arestis et al 2005:509). Such a currency should be created as ‘the liability of a true world central bank that uses it to provide liquidity to other banks in a global money market’ (Arestis et al 2005:509). It is also important to make sure that money does not flow away from productive activity to a speculative concern only with the price of the asset. Lack of a global currency privileges hard currencies over soft currencies ‘ a hard currency can raise loans in the international market by using their own currency, whereas a country with a soft currency cannot use their own currency to raise loans’ (Arestis et al 2005:514). Even currencies that tie themselves to, or use, hard currencies cannot use them to access credit as they do not have the means to create that currency (as in the Greek case). Countries with their own currency can resolve problems in their own internal debt market, but cannot act in a crisis in the foreign debt market. ‘The absence of a single currency is not only the principal barrier to financial globalization or integration, but it also segregates the market, thereby causing unequal treatment’ (Arestis et al 2005:523). ‘It is the single currency unconnected with any national currency that will allow the global financial market to develop a uniform credit standard requirement’ (Arestis et al 2005:526)

Alessandrini and Fratianni argue for a supranational bank money that would be created against the domestic earnings of the Fed and the ECB. The supranational bank money would eventually replace dollars and other reserve currencies. A global central bank would clear payments, establish quotas, provide overdrafts and coordinate monetary policies. Unlike Keyne's link of bancors to gold, the central bank would be able to increase money supply: 'whereas the creation of bancors through transfers of gold to the ICU does not alter the stock of monetary base in the world, their creation through the overdraft facility does' (Alessandrini and Fratianni 2008:12). Keynes certainly did not want the bancor to be limited by the 'blind force' of gold supply. Once established bancors would supply international liquidity endogenously to demand. Alessandrini and Fratianni want a global central bank with autonomous control over the creation of monetary base and with decision-making powers to apply rules of the game. The supranational money is to be created by the Fed and the ECB swapping part of their domestic monetary base for the new money. They argue the new money would be created endogenously by the participating countries unlike the IMF SDRs which they see as being created exogenously by the IMF as 'helicopter money'.

Huber and Robertson call for extensive money issue at the international level though an international currency issued by an independent international authority. Rather than just stabilising the global trading system the global money would be used directly for equitable aims. The money would be given to the UN to spend into circulation to help finance its own operations, but could also be given proportionately to national governments as a redistributive measure, a form of international 'basic income' (2000:56).

Whatever the basis of the units it is important that only central banks would be able to access the units and exchange them with other central banks. This means that currencies could be insulated from each other, eliminating the opportunity for currency speculation and the inequality created by 'hard' and 'soft' currencies. It would also enable governments to monitor payments for illegal activities or tax evasion. Thus economic sustainability will require a return to the era when governments controlled the rate of exchange of their national currency with other national currencies (Cato, 2009*b*).

'A system to stabilize the long-term purchasing power of the IMCU (in terms of each member nation's domestically produced market basket of goods) can be developed. This requires a system of fixed exchange rates between the local currency and the IMCU that changes only to reflect permanent increases in efficiency wages. This assures each central bank that its holdings of IMCUs as the nation's foreign reserves will never lose purchasing power in terms of foreign produced goods. If a foreign government permits wage-price inflation to occur within its borders, then, the exchange rate between in the local currency and the IMCU will be devalued to reflect the inflation in the local money price of the domestic commodity basket (Davidson, 2008: 21).'

Davidson takes the conventional view, that exchange rates may be changed to reflect changes in 'efficiency wages'. However, wages that may be efficient within a globalised capitalist framework can lead to massive inequality between more powerful and less powerful countries. One possibility to address this would be to link currencies with some measure that controls for economic inequality. For example if the exchange rate was based on median income, differences in national incomes would be addressed. Poorer countries would not have to match the purchasing power of the strong currencies. Median income is suggested because it would impact heavily on unequal societies, whereas an average income may mask huge income inequalities. Weighting for income inequality would remove the benefit of moving production to low wage countries and encourage production at the point of use.

Sustainability

The problem with Keynesian and the post-Keynesian solutions is that they generally take no account of planetary limits. Richard Douthwaite aims to include the wider issue of sustainability through the suggestion of an EBCU, an energy-backed currency unit (1999:57). The global central bank would be responsible for exchange rate control and would act as a lender of last resort to countries experiencing reserve crises. It would be backed by deposits from member countries and voting rights would be based on population shares rather than deposits. It would also take responsibility for the issuing of Ebcus to countries, which can be used for trade or to buy carbon permit(Cato, 2009*b*).

An orthodox economist would throw up his hands in horror at the suggestion made in a previous section that global money should simply be spent into circulation. The concern would be that unlimited supplies of money would lead to inflation and economic instability. However, the real limit the global economy faces is that of the environment it exists within, rather than more narrow market-based concerns about the availability of money. For a green economist, money supply should be linked to economic activity, and that activity should respect planetary limits. The link with carbon emissions imposed by an environment-backed currency unit effectively determines the quantity of the currency in circulation, since the amount issued will be limited by the absolute cap on the quantity of CO_2 emissions that are deemed scientifically to be assimilable by the planet's atmosphere (IPCC).

Such a proposal would link the two greatest problems facing us: climate change and global financial instability. While at first glance wrapping the two problems up together might seem to add to the political difficulties, there are reasons for thinking that it might bring the political element overtly into debates which are apparently economic, and vice versa. As discussed by Cato (2009*b*), launching the scheme within a smaller club—say the Eurozone and its former colonies—might avoid some of the worst political disagreements, at least in the initial stages, after which other countries could gradually be persuaded to join.

5. Working towards a Blueprint

The previous section outlined the principles of a new 'holy trinity' for underpinning the global financial and trade system. Here we outline the role and functions of the three new organs we propose to replace the defunct world system:

1. World Bank

Given the disastrous recent record of the 'world bank' this may not be the best title for this body, but it is a more accurate description of its role than it ever was of what was first the International Bank for Reconstruction and Development (IBRD). The role of a World Bank, as opposed to a high-street or investment bank, is to resolve irregularities between the world's currencies that arise from the fact that economic transactions are based in countries, which trade with each other, but which maintain their own currencies. It is therefore inherently linked with the third of our proposed new institutions, which will manage the world trade system. The World Bank would oversee the role of national governments in setting their exchange rates.

2. International Carbon Exchange House

Since the new global currency we propose is to be backed by carbon, the body that issues it would be responsible both for the currency and for introducing and monitoring the agreement on limiting carbon emissions within which the currency would function. The ICEH would be responsible for undertaking exchanges of Ebcus between countries to settle external trade balances; for the issuing of carbon permits; and for the monitoring of CO_2 emissions. It would also set the price each country would be required to pay to acquire Ebcus, based on the country's relative median income measure in terms of purchasing power parities.

3. General Agreement on Sustainable Trade

The role of the GAST, which has already been proposed by Hines (2000) and Woodin and Lucas (2004) would be to oversee a managed decline in the volume of trade and its substitution by national self-reliance. Some of the policies that have been suggested to support this transition are listed in Table 2. The GAST would also monitor global trade to ensure balance between nations and impose fines on those countries which were running either trade deficits or trade surpluses.

Table 2. *Possible policies to be followed by the proposed GAST*

Aim	Mechanism
Support the local	Provisions preventing governments from giving favourable conditions to domestic producers will be abolished
Favouring certain partners	States will be allowed to choose to give preferential trade terms to goods and services from other states which respect human rights, treat workers fairly, and protect the environment
Performance requirements	States may impose requirements on corporations opening production facilities in their territories based on: a minimum level of domestic input to the production process; a minimum level of local equity investment; a minimum level of local staff; minimum environmental standards
Standstill and rollback	No state party to GAST can pass laws or adopt regulations that diminish local control of industry and services
Dispute resolution	Citizen groups and community institutions should be able to sue companies for violations of this trade code, under a transparent and public process.

Source: Hines, 2000; see also Table 5.1 in Woodin and Lucas, 2004.

5. Conclusion: The Politics of International Money

Presenting an optimal global framework for an economically and ecologically sustainable financial system may appear utopian. A return to 'Bretton Woods', in the sense outlined above, presupposes that a small group of powerful countries will reclaim 'old' sovereign powers from the 'markets', and that they would be prepared to countenance some extensive powers of regulation *against,* or over, offshore global capitals. This is unlikely, even though in some respects it might be desirable. It further presupposes that the rest of the world would tolerate such a return to a more state-territorial form of 'hegemonic stability'. (Corbidge, 1994: 1855)

However the international financial crisis presents an opportunity to critically analyse failed conditions and present alternatives. It is important to put forward radical ideas while being realistic about the political consequences of such proposals and the possibility of attracting global supporters. The first step towards making change is believing that such change is possible; the second step is to make plans that enable that change. While politics may indeed be the art of the possible, the most significant achievement of the market is to convince us that no alternative to the global market system is possible.

Reflecting on the comment from Peet we quoted towards the beginning of the paper, we are very conscious that what is necessary to resolve the problems of international finance, is to break down the artificial barrier between economics and politics. We need a solution informed by political economists, rather than politicians hiding behind economists. Last time such an agreement was reached it was in the aftermath of a disastrous and destructive world war; it is our earnest hope that the global community can bring economics and politics back together without the need for such carnage this time.

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