Dealing with Climate Change, Financial Fragility and Development:  
the Currency Sustainability Standard

Climate change as well as many other threats to humanity’s “biological life-support system” (i.e. the environment) are critical challenges; however the efforts discussed to date are too limited for the magnitude of the challenge. Despite increasing interest, these efforts will get bogged down in implementation.

The ultimate source of the destruction seems related to the current form of capitalism…maximizing profits and revenues, minimizing costs through complex value supply chains in a highly-integrated and competitive globalized economy. I believe in markets and trade, but old style capitalism should be adapted.

Ten years ago I became intrigued with financial crises as well as growing pollution in “developing” countries. I considered the Global Finance campaign of Rainforest Action Network; in the 1980s they had taken on the World Bank for funding damaging projects in the Amazon forest, but by the turn of the century, they realized that the mega International banks were the major funders of environmental destruction around the world. The problem is the profit incentive in the midst of intense international competition. I began modeling how to transform this. With more economic context now, my idea for a currency sustainability standard (CSS) could critically change the basic incentives of capitalism that are at the heart of the problems.

IPE scholars like the late Robert Gilpin suggested that one of the contributors to increasing crises around the world was the “nonsystem” of exchange rates since the demise of the Bretton Woods arrangements. To get to a more stable system, it seemed we needed to deal with the very unit typically used to measure success: currency units. How to place a value on a country’s currency has changed over time. Consider making the value of a country’s currency based on its ability to achieve certain critical standards that countries around the world could agree upon. The basics could include income equity, a peace dividend (ability to resolve violent internal or external conflict peacefully for a minimum of three years), reducing GHG emissions, investing in Clean Energy and finally a Transparency Index to aid valid reporting. A country’s achievements and the benchmark standards would be reassessed every five years. There would be gradations so the higher a country’s achievements, the stronger their currency compared to others, creating ratios for exchange. This could be a boon for G-24 countries who could import necessities more cheaply, constrained by an incentive to achieve the currency standards. This would compare to a past of destroying their environmental assets and labor conditions to export as cheaply as possible. “Advanced” and other countries could benefit also. Their domestic investments as well as their investments and aid to other countries to achieve the standards, would contribute to their currency’s strength. In addition, “developing” countries could create more demand for “advanced” countries’ export products and services.

Certainly there would be multiple challenges. But wouldn’t business like the certainty of a set foreign exchange rate to stabilize trade and investment decisions? A basic economic concern could be the lack of flexibility of floating rates, but there could be exceptions made if serious economic situations
developed in a country. A set foreign exchange rate could also contribute to a more stable economy that might help avoid economic difficulties in the first place. Interest rates seem to be overburdened in monetary policy. Decoupling interest rates from foreign exchange rates, could allow interest rates to better target domestic economic stress or to slow overheating and inflation.

The concept needs development and debate, but a CSS (currency sustainability standard) could be a boost to a world struggling with both financial as well as environmental crises. It could also be a source of innovation, new channels of trade and more solid economies. Capitalism needs a reset!

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