World Future Council

How to reduce climate change using new IMF Special Drawing Rights

Executive Summary

Overcoming the climate challenge will not be cheap. The majority of countries currently confronted with huge deficits in their public budgets (mostly resulting from the financial crisis) are reluctant to spend money on long-term climate related issues. A genuinely effective climate policy to reduce climate change as far as still possible would require at least $ 100 billion a year, and it is not realistic to expect that this will come out of national budgets. This funding problem must be solved at an international level. The only existing international organization that can create these necessary additional funds at once is the IMF. The G20 Summit in April 2009 authorized the IMF to reanimate its own currency, Special Drawing Rights (SDRs), and to issue new SDRs, worth $ 250 billion, to tackle the financial crisis. – If the IMF can combat the financial crisis with newly created money, why can it not respond to the challenges of climate change in the same way? This is the point of departure of the WFC proposal.

The New Money Proposal from the World Future Council

In contrast to other proposals dealing with SDRs (e.g. Soros, Action aid, TWN, IMF) the plan of the WFC explicitly proposes to create new and additional SDRs. Therefore the amount of money that could be used in the WFC plan is much larger, and could provide the resources to finance climate change mitigation projects immediately.

The centrepiece of the WFC proposal is the establishment of a financing tool that uses the ability of the IMF to create new international reserve money in the shape of SDRs. The intention is to support financing facilities such as the new Green Climate Fund established at the COP 16 in Cancun.

The IMF member states can agree on the issuance of new SDRs to themselves (proportionate to their quota shares). Pursuant to the agreement on the formation of the new Green Climate Fund, member states should commit themselves in advance to forwarding the majority of the new SDRs to this Fund. A small portion (e.g. 10%–20%) could be retained by the member states for the financing of specific climate protection projects.

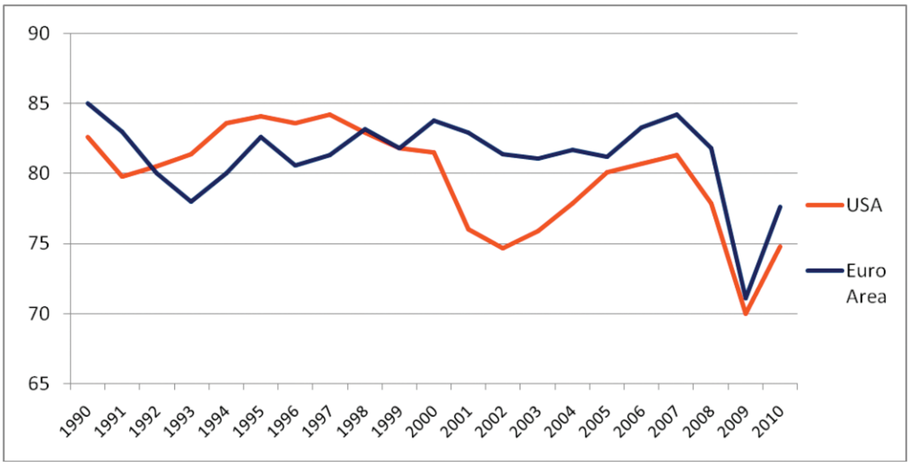
Because SDRs are not usually a medium of payment, the Green Climate Fund would change the newly obtained SDRs into the required national currencies at the respective central banks. At that moment the creation of new money in the currency of the IMF (SDRs) becomes a creation of new money in the equivalent national currencies.

The basic principle is that the new money should be paid only against performance. The Fund should ensure that new economic value and new green jobs (new wages and new revenues) are created in the developing countries by using the additional funds only to pay directly for renewable energy infrastructure projects.

Creating new Money and the possibility of inflation

The proposal to finance new RE projects by "printing" new money will inevitably be confronted with fears of inflation, in particular in light of the creation of at least $ 100 billion a year that is being proposed. This fear is, however, unfounded considering the global GDP is about $ 60,000 billion and the average utilization of the industrial capacities is approximately only 81 percent.

Figure 1. Capacity Utilization in the Euro Area and the USA (in percent)



(Source: Fed, Statistical Release G. 17, ECB, Monthly Bulletins)

The industry typically holds free capacities. This can be explained with the desire to have the ability to satisfy a sudden demand.

Nonetheless, as a result of newly created SDRs, new money and additional real demand for goods and services will be created. This can be addressed at two levels. Firstly, the real economy: From experience, additional demand leads to more production rather than increasing prices. Secondly, at the monetary level, one has to trace the new money from its creation to its destruction through the two-level banking system. To assess the monetary aspects of new money creation, one first needs to address the existence of an endogenously determined money supply.

Conclusion

The advantages of the proposal to finance climate protection investments with SDRs from the IMF can be summarized as follows: Resources totalling at least $ 100 billion would be immediately available. No country would be required to overstretch its national budget; national budgets would even receive a small portion of the new money for their own expenditure when applied to a climate protection project. The new money would be equal to the rise in new production, therefore there would be no excess money in the monetary system. The key selling point would be that investments in climate protection could consequently be undertaken with the new money. Given the current under-utilization of global production capacity, no significant inflationary impulse is to be anticipated from the new demand. Over the long-term, it can be expected that the industrial economy – in deference to its own profit interests – will respond to the increased demand for CO2-free investment goods with an expansion of their corresponding capacity and that excessive demand will not result.

The World Future Council brings the interests of future generations to the centre of policy making. Its up to 50 eminent members from around the globe have already successfully promoted change. The Council addresses challenges to our common future and provides decision makers with effective policy solutions. In-depth research underpins advocacy work for international agreements, regional policy frameworks and national lawmaking and thus produces practical and tangible results.

In close collaboration with civil society actors, parliamentarians, governments, business and international organizations we identify future just policies around the globe. The results of this research then feed into our advocacy work, supporting decision makers in implementing those policies.

The World Future Council is registered as a charitable foundation in Hamburg, Germany. Our work is not possible without continuous financial support from private and institutional donors.

For more information see our website:
www.worldfuturecouncil.org

Contacts

World Future Council Foundation

Head Office

Mexikoring 29
22297 Hamburg
+49 (0) 40 3070914-0

UK Office, London

100 Pall Mall, St. James
London SW1Y 5NQ
+44 (0) 2073213810

Consultant Future Finance
Dr. Matthias Kroll
+49 (0) 40 3070914-25
matthias.kroll@worldfuturecouncil.org

Director Climate and Energy
Stefan Schurig
+49 (0) 40 3070914-27
stefan.schurig@worldfuturecouncil.org