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System change, not climate change

A Green New Deal requires nothing less than bringing the globalised financial system under the authority of nation states

This article is a slightly edited excerpt from Ann Pettifor's forthcoming book 'The Case for the Green New Deal' (Verso, 2019).

We have been warned by climate scientists that to avoid the most dangerous impacts of climate breakdown and global heating, then humanity collectively has (starting from 1870) a 'carbon budget' of about 3,200 billion tonnes of carbon dioxide emissions to work with. At the current rate of global emissions, this budget would be used up within ten to twelve years.

Worse, in 2019 another group of scientists, the UN's Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES), warned that nature is declining globally at rates unprecedented in human history. The rate of species extinction is accelerating, with grave and immediate impacts on people around the world. The UN called for 'a fundamental, systemwide reorganization across technological, economic and social factors, including paradigms, goals and values'.

The Green New Deal (GND) is a blueprint for bringing about that urgent system-wide reorganisation within a short time period. The first question we should ask is, whose deal is this? Can the Green New Deal be a single global plan, implemented by a global authority, or can it be managed more locally?

As Herman Daly, pioneer of ecological economics and the architect of 'steady state' economics, has argued: the human economy is a subsystem sustained and contained by a delicately balanced global ecosphere, which in turn is fuelled by finite flows of solar energy. The earth's life support systems do not recognise boundaries. So can the New Deal work on any lesser scale than the totality of the globe?

While the impacts of the current crisis are felt everywhere, the largest

share of historical and current global emissions of greenhouse gases originated in rich countries. Meanwhile, per capita emissions in poor countries are still relatively low. Ecological justice therefore requires a major redistribution of wealth, from rich producers and emitters of toxic fossil-fuel emissions, to low-income countries.

Furthermore, as the Global Commons Institute (GCI) has argued, rich countries must reduce emissions until per capita emissions converge across the world. The proposal for 'contraction and convergence' has for some time now been advocated at the UN. It has failed to gain traction because global institutions are weak, are largely unaccountable and lack political leadership.

It is clear we cannot rely on global initiatives as the only hope. There is an alternative approach: international cooperation based not on global institutions, but on the authority of nation states. For the Green New Deal to be transformational, its implementation must be at the level of democratic accountability. Policies agreed at an international level would be implemented and enforced by locally and nationally accountable institutions that reflect domestic conditions.

But even if we can create policy at the level of the state or of local government, does this mean that those active in the markets of the global financial system will support the policies of different nation states? Will the existing dollarized financial system – no longer tethered to the real economy – support and finance a Green New Deal at national level?

We have to get real and accept that, with some exceptions, the sector would not help finance a massive climate stabilisation project on terms that are acceptable and sustainable. As things stand, those that operate in globalised capital markets behave as 'masters of the universe'. They remain aloof and unaccountable to the governments and communities for whom the transformation of systems is an urgent task.

If we are to mobilise the financial resources needed for the massive changes required to conserve, restore and sustain life on earth, then the globalised financial system must be subordinated to the needs of nations, and made servant to the task of transformation.

If the global sector is to be tamed, then a first challenge will be to tackle the hegemony of the currency that sustains globalised finance: the United States dollar.

Imperial power and the US dollar

The pre-eminence of the dollar came about as a result of the US strong-arming the rest of the world into adopting its currency as the world's 'money' at the 1944 Bretton Woods conference. Keynes had argued for a global currency, not tied to any one country, and managed in the interests of the international community.

He was defeated at Bretton Woods, as the US imposed its will on a weakened Europe. Today that decision still allows the US to enjoy a 'free lunch' at the expense of the rest of the world. Its 'exorbitant privilege' is a reward for the insurance it provides the rest of the world, especially in times of crisis.

As the Federal Reserve acts as global lender of last resort, the US made trillions of dollars available to European and Asian banks during the Great Financial Crisis of 2007–9. This 'insurance' is valuable at times of crisis, but it could just as easily have been provided by an independent, international central bank working with, and answerable to, all nations, not just the most powerful.

The 'exorbitant privilege' enjoyed by the United States is remarkable given that the country sustains ever-rising external debt and deficits, because global demand for the dollar exceeds US production. In contrast to Britain's imperialist role as a major exporter of capital, the US is a major capital importer. It uses its power to attract financial resources, surpluses of capital from Asia and the oil-exporting countries.

Deregulated credit in a world of mobile capital does not just fuel consumption, it also incites corruption, of both the political and finance sectors.

A second great benefit the United States enjoys is the power to borrow in its own currency, over whose value it has some control. This means that the US avoids the exchange rate risks faced by other countries when they borrow and have to repay in a different currency.

If the dollar were to depreciate, that would not matter to US authorities, as the nation does not own debt issued in euros, yen or sterling. When the dollar falls in value, the debts owed by the United States fall in value too. Thus the dollar as the world's reserve currency regularly affords the US cheap, low-risk finance with which to sustain its large trade deficit and its exorbitant consumption of the world's goods and services.

The hegemony of the dollar in global finance remains unchallenged

despite the recent financial crisis, as the historian Adam Tooze has pointed out. In fact, the US dollar did not merely survive the 2008 crisis, but was reinforced by it. As a result of both the global financial crisis and the weakness of the Obama administration, Wall Street banks are bigger and more powerful than before the crisis. That outcome was not inevitable. It was largely due to a failure of progressive, global leadership by the Obama administration.

Unlike Franklin D. Roosevelt, the president who implemented the original New Deal agenda, Obama had no direct experience of Wall Street and its ability to inflict systemic economic failure on millions of innocent Americans and their families. Instead his advisers, such as Alan Greenspan, Larry Summers and Robert Rubin, were themselves architects of the globalised and deregulated financial system.

Under the Clinton administration they had teamed up to defeat a plan by Brooksley Born, the chair of a federal agency, for stronger regulation of derivatives. In 1999 Summers and Rubin together pushed through the repeal of the Roosevelt administration's 1933 Glass–Steagall Act, which had prevented banks backed by taxpayer guarantees from being affiliated with investment banks that engaged in financial speculation.

The Obama administration's support for Wall Street has been compounded by the Trump administration, dedicated to upholding and weaponising Wall Street power. To fortify its imperial overreach, the US budgeted USD 750bn (3 to 4 per cent of US GDP) for defence in 2020, and stoked talk of further foreign invasions – what the US presidential candidate Bernie Sanders calls the 'forever wars'.

Fuelling consumption, inciting corruption

Backed by a great imperial power, the US dollar works hand in hand with 'the invisible hand' of the market – or, less abstractly, with the invisible hands of powerful agents active in financial markets. It is a globalised system committed to 'the constant expansion of production and driven by the constant impetus to capital accumulation', to quote Simon Pirani of the Oxford Institute for Energy Studies.

It is a system that, enabled by the dollar's power to breach regulatory barriers, has deliberately been detached from democratic oversight at the level of nation states. Its purpose is to accumulate wealth for the tiny minority that operate in the finance sector. This is achieved through the production of, and speculation in, intangible financial assets, most

notably credit.

Credit is the main driver of economic expansion (defined by economists as 'growth') and consumption. It has stimulated the extraction of fossil fuels through industrialisation, urbanisation, motorisation and the growth of mass material consumption and consumerism by the affluent classes, in both high- and low-income countries.

Deregulated credit in a world of mobile capital does not just fuel consumption, it also incites corruption, of both the political and finance sectors. Drug dealers, traffickers and gangsters engaged in a global trade responsible for roughly 450,000 deaths as a result of drug use in 2015, which has made them among the wealthiest beneficiaries of today's system of unregulated, globalised, mobile capital.

Credit is presumed to 'grow' exponentially as private finance enhances capitalism's ability to, first, create society's new 'wants', what J. K. Galbraith called our 'psychologically grounded' desires: 'wants' that do not 'originate in the personality of the consumer', but are 'contrived by the process of production'.

In other words, globalised, dollarized financial capitalism shifted offshore has undermined the power of democratic governments and local communities to develop economic policies to meet urgent needs.

In this way, the spigot of easy credit denominated in dollars fuels global economic expansion and the constant impetus to capital accumulation by the already-rich. Consumption gorges in turn on fossil-fuel extraction, accelerating the growth of greenhouse gas emissions (GHGs).

From the perspective of the ecosystem, perhaps the most damaging aspect of globalised, largely deregulated credit-creation is the finance sector's demand for high, real rates of return on a relatively effortless process: the creation of new money. If interest rates are higher than the capacity of the earth, or the economy, to renew itself, then interest rates become brutally extractive.

People who are obliged by low or falling incomes to borrow are driven to work ever-longer hours to raise the money needed to repay the interest on their debt. Firms, too, cut costs and exploit labour more intensively in order to raise the finance needed to service their debts. Governments strip the forests, trawl the seas and exhaust the land to improve 'efficiency' and generate the returns needed to repay their obligations, including foreign debt service.

Bring offshore capital onshore

It is my view that to manage economic expansion, halt the impetus to capital accumulation and lower GHGs, it is essential to first manage the spigot of globalised credit creation. To that end, it will be necessary to bring offshore capital back onshore, and to subject the system to accountable management and regulation at the level of the state.

Next, to manage the global crisis of earth systems breakdown we will need an international currency independent of the sovereign power of any single, imperial state. Finally, we will need to establish an international 'clearing union' for the settlement of credits and debits between nations as we go about sharing the burden of transformation.

Many will regard such proposals for radical global system change as utopian. And so they will be – until a global shock makes system change inevitable. The plain fact is that societies have over time developed monetary systems that make the mobilisation of financial resources eminently possible for society's urgent needs.

Given the establishment of these systems, there need never be a shortage of money. But publicly backed monetary systems cannot be managed and deployed in the interests of society and the ecosystem as long as they remain 'globalised' – captured and moved offshore, beyond the reach of regulatory democracy. In what is effectively the financial stratosphere, monetary systems serve the interests not of societies but of the global 1 per cent.

This has not happened by accident. As the result of a deliberate process, the financial system has been detached from the real economy of nation states and from governmental regulation. Following the logic of neoliberal economics, it has been 'encased' to protect the sector from democratic interference, as Quinn Slobodian shows in his book *The Globalists*.

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We have been here before. Today's globalised system harks back to the gold standard system of the 1930s when the private finance sector wrested control of publicly backed monetary systems away from democratic governments. At the time those that argued for 'system change' – the dismantling of the gold standard – were thought delusional. When the system did collapse, many economists were shaken

to the core. Mistakenly, they had believed the gold standard was, like gold, immutable.

We must take back power

Given the vast power of dollarized globalisation over the world's economies, can governments as rich as Germany's or as poor as Mozambique's mobilise the finance needed for the transition to a liveable planet? Could governments cooperate to mobilise the finance needed by the world's poorest countries? We know there are ample financial resources (savings) to pay for the transition. But do societies and their governments have the power to realise these resources?

The straightforward answer is no. That fact presents Green New Dealers with the first grand mission: nothing less than global financial system change. If we are to support the campaigning efforts of Extinction Rebellion and the school strikes movement; if we are to fulfil the goal of a fundamental, system-wide transformation of the economy to save the ecosystem, then we must combine and cooperate at an international level to bring about a revolution in the power relations of the globalised and dollarized economic system.

Cooperation and coordination between a progressive British economist and an American president and his administration brought about such transformation in 1933 and again, less successfully, at Bretton Woods in 1944. We can do so once more – equipped with sound economic theory and political practice to mobilise our collectively paralysed societies.

The purpose will be to transform the globalised financial system within which the domestic economic systems of nation states are situated and integrated, and to which they are subordinated. Given these challenges, and given today's politics, the task of transforming the system may seem insurmountable.

But, as David Roberts wrote in 2019: 'We are not in an era of normal politics. There is no precedent for the climate crisis, its dangers or its opportunities. Above all, it calls for courage and fresh thinking.'



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