Global “Carbon” Money: Financing the Low-Carbon Transition

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Covid-19 and Climate Change

1) Covid-19 highlights urgency of addressing climate change challenge:

a) both cause systemic crisis rooted in environmental degradation;

b) pandemic proves human capacity for radical change in behavior;

c) pandemic has spawned radical extensions of macro-stabilization policies (fiscal, monetary, industrial).

2) Need for large-scale infrastructure investment program to secure recovery from greatest economic crisis since WW II => Green New Deal.

3) But pandemic has caused large increase to already high levels of public debt in most countries => alternative supra-national financing mechanism which does not increase national debts.

Funding Objectives

1) New financing mechanism will have to finance transition to zero-carbon economy over next twenty years => sectoral transformation on global scale: power (renewable energy), agriculture and land use, transportation (cars, trucks, aviation, shipping), buildings, industrial processes (steel, plastics, cement).

2) Transfer of resources to poorer countries, especially those along equator, who are most affected by climate change -> both for mitigation and adaptation; also to deal with mass migrations.

3) One-time compensation for de-mobilization of “brown” (high-carbon) assets (e.g. oil and gas reserves).

Negative Externality vs Global Public Good: The Dance of Two Shadow Prices

- Greenhouse Gas Emissions are massive negative externality posing systemic threat which needs to be paid for by emitters => Social Cost of Carbon (SCC) price reflecting estimated damage -> rising over time.
- Avoidance of climate change catastrophe is global public good which needs to be rewarded => Marginal Abatement Cost (MAC) price reflecting pollution reduction costs -> shifting lower over time, depending on technology advances and cuts in GHG emissions.
- SCC price basis for global carbon tax (also built into cap-and-trade schemes) -> finances insurance fund for reward scheme turning loans into grants in proportion to MAC-valued emission reductions.
- Global governance for global threat(s): International (funding and price-setting) agency organizing zero-carbon transition. Coalition of the willing. Carrot-and-stick approach to non-members (funding access, border tax).

New International Agency for Zero-Carbon Transition (ISDA)

ISDA (International Sustainable Development Administration):

- Sets and enforces both SSC price (for GHG pollution certificates) and MAC price (for emission reduction certificates). Issues and destroys both types of certificates according to precise protocol.
- Organizes sectoral approach to zero-carbon transition on global scale (e.g. power, electricity, cars, other transport, steel, etc.).
- Enforces phase-out and devaluation of ”brown” assets, with one-time compensation proportionate to validated emission reductions.
- Finances eligible low-carbon transition projects via issue of convertible emission reduction certificates. Rewards validated emission reductions with debt-servicing relief, backed by insurance fund it runs.

Heterodox ”Money” Principles for ISDA

1) ”Credit-Money”: Endogenous money creation in acts of credit extension

-> ISDA’s convertible emission reduction certificates.

2) Suzanne De Brunhoff’s notion of credit-money’s ex-ante (private and pseudo-social) and ex-post validation => applies to selection and verification of transition projects.

3) Critical assessment of Modern Money Theory’s notion of direct monetary financing => provision of debt-servicing reductions as reward.

4) Regulation Theory’s notion of “monetary regime”=> new “sustainable finance” regime: move from shareholder value maximization to ESG criteria; “green” bonds; “climate finance” derivatives; public/private funding of “sustainable development goals” via global network of ISDA-sponsored national development banks.

5) International Monetary System (Keynes’ supra-national money): have SDRs issued in elastic fashion via central bank swap lines (Fed, ECB, PBoC, BoE, BoJ). Link ISDA’s emission reduction certificates to SDR basket while also allowing it to enter domestic banking system’s reserves as liquidity and financing instrument for domestic infrastructure investment in support of zero-carbon transition.