



Institute for Advanced Sustainability Studies IASS in Potsdam

Fragile – Handle with Care

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**Second FINEXUS Conference
“Closing the Gaps between Finance and Sustainability”
Zurich, 17-19 January 2018**

- Financial markets will finance the global sustainability transition – or it will not happen.
- *An economically and socially* sustainable financial system is thus the necessary precondition for financing the global sustainability transition.

A Fragile System



- The monetary system is an autopoietic, self-referential system of expanding, yet instable, debt claims.

Looking into the Abyss



The Money View

The Money View is a *market-based credit theory of money* which holds that

- Money is credit.
- Most money is privately created, not created by states.
- A vast amount of money is created off-shore.
- Shadow Money: MMFs, Repos, Asset-backed commercial papers, Forex Swaps.

What Scenarios are Not

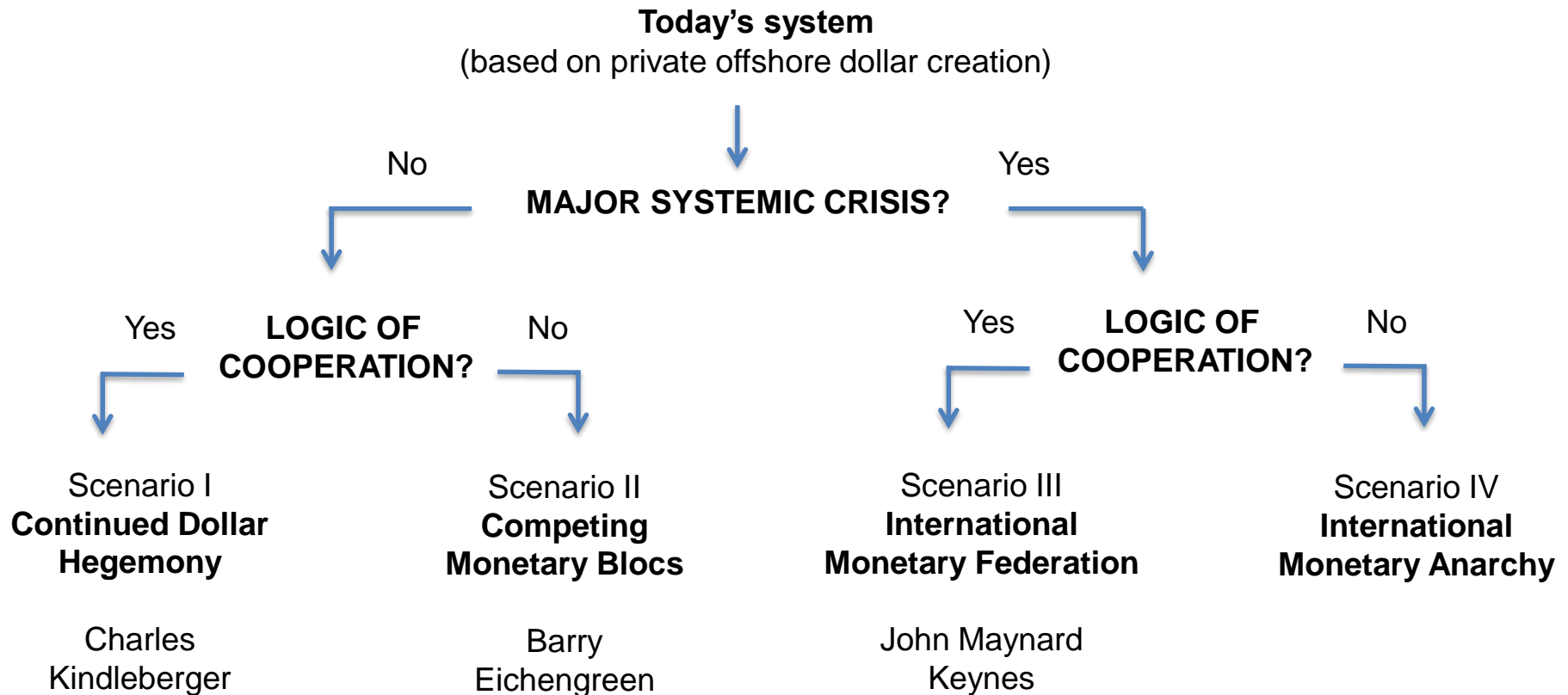


Why Scenarios?



- Explore the space of possibilities.
- Inspire thinking.
- Trigger social learning.
- Identify bifurcation points in the socio-ecological system.

The Revolutionary Path



Thank you for your attention!

Scenario 1: Continued Dollar Hegemony

- Evolutionary-cooperative: Business as usual.
- Hegemonic Pax Americana (*Kindleberger*).
- USD remains dominant currency for global economic activity.
- Further expansion of financial globalization under US lead.
- Off-shore credit creation continues.
- Fed's C6 swap lines backstop the private offshore USD system by providing public offshore USDs.



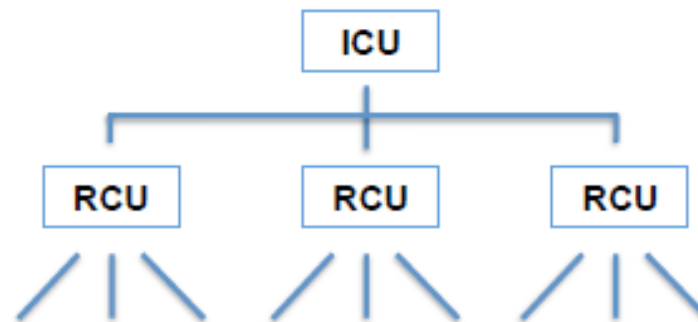
Scenario 2: Competing Monetary Blocks

- Evolutionary-competitive: no crisis has occurred but China and Europe have developed into important regional blocs.
- Competition between USD, EUR, RMB as international currencies (*Eichengreen*).
- Multipolar: Pax Sinensis, Pax Franco-Allemande, Pax Americana.
- Off-shore credit creation continues – especially within blocs.
- Reduction in Fed swap lines, and emergence of 3 distinct spheres of monetary influence.



Scenario 3: International Monetary Federation

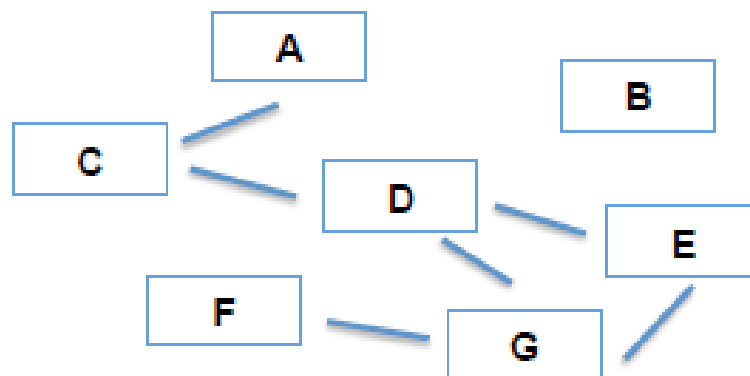
- Revolutionary-cooperative: a major crisis shatters the global financial system.
- International monetary cooperation in ICU-RCU framework is established, more room for diversity between regions & in countries (*Keynes*).
- Real world example: EPU in the 1950s.
- Financial globalization radically scaled back; national financial sectors prevail.
- Private offshore credit money systems no longer functional.
- Therefore, no need for central banks swap lines any longer.



ICU: International Clearing Union, RCU: Regional Clearing Union

Scenario 4: International Monetary Anarchy

- Revolutionary-uncooperative: international economic activity drastically reduced by a major financial crisis.
- Monetary Anarchy: heterogeneous state of monetary systems (*Hayek*).
- IMS: Non-system without substantial public or private international credit money creation.
- CB swap lines remain but with no systematic offshore credit money creation.



No clear systemic structure between countries A, B, C...

Goal: Succinctly bridge between two distinct communities

Conceptual thinkers: John Kay, Charles Perrow, Victoria Chick, Yu Yongding, etc.

Financial network-modellers: Guido Caldarelli, Stefano Battiston, Paolo Barruca, etc.

Status: Book chapters are being prepared, intended publication date early 2019.

Contribution:

- The book provides a substantial and original fusion of the ideas of 2 communities which each have important and complementing insights into the IMS.
- Suggests insight into a variety of future projects and research agendas.

Goal: Build community committing cutting edge research on credit money, central bank swap lines, and the IMS

- 1-day closed door workshop organized at Center for European Studies at Harvard.
- High-level researchers from both sides of the Atlantic: Sylvia Maxfield, Kevin Gallagher, Leanne Ussher, Benjamin Braun.
- Bringing ideas of offshore dollar creation via the Eurodollar market and by the C6 central bank swap lines to the larger IPE community.

“Keynes and the international monetary system: Time for a tabular standard?”
European Journal of the History of Economics Thought, Ussher, Haas, Jaeger,
Töpfer.

**Goal: Explain Keynes’ International Tabular Standard (ITS) proposal,
and show that it could form part of the future IMS system**

- The ITS pegged the value of a supranational currency to a broad index of primary commodities.
- Keynes’s vision was anchoring a supranational currency plus dampening the trade cycle.

The theoretical basis of this work contributes to our scenarios paper.

Shadow Money and the Public Money Supply: The Impact of the 2007-9 Financial Crisis on the Monetary System, *Review of International Political Economy* 24 (5), pp. 802-838. Steffen Murau

Goal: Show how post-crisis US political decisions and regulatory changes have integrated some shadow money forms in the public money supply

- Shadow banks create 'shadow money', i.e. private substitutes for bank deposits.
- Three main forms of shadow money: money market fund shares, overnight repurchase agreements and asset-backed commercial papers.
- Financial crisis brought a paradigm shift: CB protection of bank deposits was extended to some forms of shadow money, but not to others.

The theoretical basis of this work contributes to our scenarios paper.

- 2-page publication in the *Diplomatisches Magazin* (August 2017).
- Monthly publication for German Diplomatic/Embassy Community.
- Numbers of copies published: 10 000 (published in German and English).
- Explanation of the Keynes-inspired European Payments Union (1950s).

IFAIR: The European Payments Union: Back to the Future »

Image preview



The European Payments Union: Back to the Future

Among

example, sustains its currency by a mechanism of substantial transfers between economically divergent US states.

monetary experts, there is a widespread consensus that the Eurozone in its current form is not sustainable. The key argument is that introducing the Euro abolished what has historically been the main mechanism for realigning diverging economies, i.e. exchange rate adjustments, while not replacing them with any other mechanism that would work sustainably. The USA, for

AUTOR

Armin Haas

research at the Institute for Advanced Sustainability Studies (IASS) in Potsdam concerns innovative tools for the management and governance of systemic risks. He is particularly interested in

Goal: Contribute to the development of a script for a high-visibility theatre production on global economic crisis with

- Renowned film & theatre director Andres Veiel.
- Theatre premiere planned for Fall 2018.
- Sept 2017: Full-day workshop with general public.
- On-going consultation in writing script & further conferences.



Our contribution:

- We introduced the idea of the C6 the swap lines in the full day workshop.
- Bring into the script the abolishment of the C6 swap lines as a cause of financial crisis.
- Dissemination of the central ideas of the scenarios paper.
- Potential media opportunities to bring awareness to DOLFINS work.

Appendix: Detailed scenario tables



Scenario I: Continued Dollar Hegemony

Inter-national political economy	Int. System	Hegemony: Pax Americana
	Int. Monetary Governance	Relatively homogenous national monetary systems integrated in US-dominated int. system
	Exchange Rate (ER) Arrangements	Flexible ERs btw major currencies, minor currencies tend to be pegged to major ones
	Financial globalization	Further expansion under US lead; backstops via C6 swap lines seen as credible & fuel system's expansion
	Int Financial Regulation	Co-evolution of private actors who seek to escape regulation and regulators attempting to keep up
Offshore credit money system	Public-private hybridity	Dominating <i>private</i> international money creation via offshore dollars
	Offshore deposits	Offshore USD deposits remain by far the most important form of international credit money
	Offshore shadow money	FX swaps with USD surpass offshore USD repos and offshore USD MMF shares
	Central bank swap lines	The Fed's C6 swap lines backstop the private offshore USD system by providing public offshore USDs

Scenario II: Competing Monetary Blocs

Inter-national political economy	Int. System	Competition: Pax Americana next to Pax Europaea and Pax sinensis
	Int. Monetary Governance	Rather regionally homogeneous monetary systems, bigger differences btw US-, EU- and China-centered blocs
	Exchange Rate (ER) Arrangements	Flexible ERs btw the blocs, smaller countries tend to peg to dominant currency in their respective region
	Financial globalization	US & China closely entangled and promoting USD & RMB; EU ring-fenced financial sector and less int. connected
	Int Financial Regulation	Liberal US; heavily regulated EU; state-managed China with regulations promoting financial expansion
Offshore credit money system	Public-private hybridity	Dominating <i>private</i> international money creation in the blocs' peripheries via offshore USD, EUR and RMB
	Offshore deposits	Offshore USD deposits play most important role globally, but no longer 'hegemonic' next to offshore EUR & RMB
	Offshore shadow money	Offshore USD, EUR & RMB shadow money is systemic (intentionally for US & China; unintentionally for EU)
	Central bank swap lines	Regional swap lines by Fed, ECB & BoC form backstops in the blocs' private offshore credit money systems

Scenario III: International Monetary Federation

Inter-national political economy	Int. System	Cooperation: Multilateral int econ order with framework of international and regional clearing unions (ICU & RCUs)
	Int. Monetary Governance	Political int monetary cooperation in ICU-RCU framework, more room for diversity btw regions & in countries
	Exchange Rate (ER) Arrangements	Fixed but adjustable ERs both within ICU and RCUs
	Financial globalization	Radically scaled back; financial sectors are national again
	Int Financial Regulation	Banking systems are national; in post-crisis regulations provide only baseline recommendations for states
Offshore credit money system	Public-private hybridity	<i>Publicly</i> organized IMS; private money creation subordinate and only possible on national level
	Offshore deposits	Offshore deposit creation abrogated & shifted onshore; G20 recommends real bills doctrine for national banks
	Offshore shadow money	Offshore shadow money creation abrogated; national financial systems free to allow or abolish shadow money
	Central bank swap lines	No longer needed in ICU-RCU framework

Scenario IV: International Monetary Anarchy

Inter-national political economy	Int. System	Anarchy: Pattern of heterogeneous, independent states managing domestic affairs with little int cooperation
	Int. Monetary Governance	Non-system without substantial public or private int credit money creation
	Exchange Rate (ER) Arrangements	Anything goes: some floating ERs (volatile!), some pegs (difficult to sustain), some non-convertibility
	Financial globalization	Radically turned back; no systematic offshore credit money creation, much less int trade
	Int Financial Regulation	Pre-crisis regulations still formally in place but almost meaningless as states do not necessarily comply anymore
Offshore credit money system	Public-private hybridity	No substantial int money creation; mainly return to national money creation (public, private or hybrid)
	Offshore deposits	Minor role for offshore dollar deposits; creation cannot be prevented, but they are unreliable & dysfunctional
	Offshore shadow money	Minor role, some remainders left of offshore shadow money but unreliable & dysfunctional in anarchic setting
	Central bank swap lines	Swap lines remain formally in place but are not seen as credible & are not in consistent use