



Awakening to Global Book-keeping

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Awakening to Global Book-keeping

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Most people regard bookkeeping¹ as something secondary, as a matter for accountants lost in their columns of figures, or else the means to justify oneself to the tax collector. To write about bookkeeping is thus to risk losing readers in the very first lines – even those readers concerned with the future of the world economy. While many are happily active in the world economy, few desire to get to grips with the nature and purpose of bookkeeping. And yet the first depends on the second, just as reading depends on writing and the alphabet. Without the one there could not be the other. Without bookkeeping, there could be no economy.

Today's economic life suffers from an inadequate understanding of bookkeeping. Our awareness of bookkeeping has not been able to keep pace with the development of humanity in this century. It is high time, therefore, to bring accounting up to date with modern monetary and economic phenomena.

Of all the languages developed by humanity, the language of bookkeeping has always shown a certain cosmopolitan tendency. By the time of the Sumerians in the fourth millennium BC – the oldest civilisation with evidence of writing – bookkeeping² had already achieved a perfection applied to the vast extent of their economic activity, even though in this epoch the economy was completely embedded in the religious life. At the end of the Middle Ages, it was the form and precision of its bookkeeping that largely gave the Templar Order its coherence. Similarly, it was only in conjunction with the instrument of bookkeeping that the Italian economy of the Renaissance period was able to develop, followed by that of the Low Countries and finally Europe generally. Despite humanity's many different spoken languages and its endless strife, a common language has come to serve commerce. Today, at the time of globalisation, the introduction of electronic bookkeeping brings to a culmination this inherently cosmopolitan tendency of bookkeeping. The major part of today's trading – upwards of 80% – is done by a simple set of electronic bookkeeping techniques that are valid the world over, no matter who the economic partners are, which language they speak or what culture they belong to.

Moreover, with this recent evolution a new phenomenon has appeared. Cash is no longer the principal form of payment. Money is becoming global bookkeeping; money and bookkeeping are becoming two sides of one coin. If we wish to remain (or rather become) masters of our situation, we have no choice but to become more conscious of the nature of modern bookkeeping.

The Balance Sheet

In the rest of this article, the first personal singular, I, will be used to represent the entity whose bookkeeping is being considered. This "I" could be an individual initiative, a

¹ Although the word bookkeeping is used, one should be careful not to think of this in terms of the mere recording of transactions. What is meant is the recording of transactions in a specific language, so that the result of one's activity is readable, that is to say, can be made conscious.

² Vlaemminck, J H. 1956. *The history and principles of bookkeeping*. Dunod.

business, a school or a group of activities. “I” exists and is active and the bookkeeping described below is the bookkeeping of this “I”.

The Balance Sheet shows my situation, the extent of my fortune, what I owe and what I have (am owed).³ It is an image in which one finds arranged all the aspects that constitute one’s present situation as seen at a precise moment in time. On one side, the active, that which is mine (owed to me): cash, money at the bank, debtors and stock. On the other, the passive, that which is not mine (I owe to others) – my debts, my creditors, my own capital. It is interesting to note that my own capital (or net worth) appears on the passive side, a fact that can well perturb the initial experience of bookkeeping for those not used to it. But this shows us an aspect of the relationship of own capital to the whole social human environment. Even that which I call my own capital is, from a certain point of view, lent to me by others.

The Balance Sheet, with its set of accounts serving to remind me of my assets and liabilities, is the most ancient form of bookkeeping that one can discover. It represents a point of view that turns on the “I”, on the one who is doing the bookkeeping or for whom it is done. Since greatest antiquity all known forms of bookkeeping confirm this point of view, keeping more or less detailed track of the numerous causes of variation in fortune of this “I”, especially those consequent on its own activities.

The Income and Expenditure Account

The Income and Expenditure Account is completely different from the Balance Sheet. Even though it has earlier rudimentary forms, it is not until the Italian Renaissance that the Income and Expenditure Account comes to exist in its own right alongside the Balance Sheet. This moment is marked by the discovery of the technique of double entry bookkeeping, described for the first time by Luca Pacioli in 1494.⁴ This discovery allowed bookkeeping to make a decisive step in its evolution.

Corresponding exactly with the discovery of perspective in painting, double entry bookkeeping is a precise technical relationship that henceforth relates the observer and the world he observes. With perspective, if the observer moves, the picture changes in consequence. It contains the observer in this sense. It is the same with double entry bookkeeping. I exist and, whether I make it conscious or not, a Balance Sheet shows the situation of my fortune. I act. My activity has consequences in the world and the Income and Expenditure Account shows the importance and the nature of these consequences.

³ Editor’s Note: In normal accounting parlance one says what I owe on one side and what I have on the other. This reveals an asymmetry of concept. Either one should say what I owe and what I am owed; or what I have and what I do not have. The asymmetry of owe and have is connected to the theme of the article. It is a future consequence of the changes implied by the article that this asymmetry will disappear, thus what I experience as mine will become experienced by me as on loan from the community, as it were, rendering me the steward of it. Hence the use of “have (am owed)”. It would take one too far afield to enter into this subject in the full detail that it warrants, but it would be equally unsatisfactory to leave the point unnoticed.

⁴ Luca Pacioli, Italian mathematician and Franciscan brother, published *Summa di Arithmetica, Geometrica, Proportioni e Proportionalitta*, at Venice in November 1494. A friend of the painter Piero della Francesca, Leonardo da Vinci, Ludovico Sforza and Pope Leo X, he is considered today as one of the great scientists of the 15th century.

The Income and Expenditure Account describes the changes in the world consequent on my activity seen from the point of view of the world. But my activities also have an effect on my own situation, modifying it with every act. The technique of double entry bookkeeping introduces a permanent coherence between the previously independent Balance Sheet and Income and Expenditure Account.

Even so a difference exists. The nature of the Balance Sheet is completely different from that of the Income and Expenditure Account. The Balance Sheet shows a particular situation. The values shown in the Balance Sheet reflect a form of picture valid at the moment of observation. The Balance Sheet expresses a state, a relationship in space. The Income and Expenditure Account measures a current, a flow. It records the movement in values during a specific period, usually one year, at the end of which it must be brought to zero. The Income and Expenditure Account expresses process, a relationship in time.

The Closing

There is yet a third aspect of double entry bookkeeping, the Closing, which is also the keystone. Its nature is different again to those of the Balance Sheet and the Income and Expenditure Account. Because the Closing exists for only an instant, it is outside both space and time. For this reason, it is completely underestimated by current practice, even though it affects several basic bookkeeping operations. By means of the Closing, the Balance Sheet accounts are adjusted, the Income and Expenditure Accounts are brought to zero, and the resulting surplus or deficit for the period becomes visible.

Whether positive or negative, at this stage, the Result (the resulting surplus or deficit) loses its connection with the Income and Expenditure Account; it is liberated. Here a question arises: To whom does the Result belong? Few ask this question, because the answer is assumed to be self-evident: It belongs to me! It is thus placed in the Balance Sheet, combined with the own capital, and the procedure is repeated. If I end with a surplus, my capital grows; if a deficit, it diminishes.

But this is a flagrant short circuit that neither recognises the different nature of the Closing nor puts it to profitable use. The possibility for an awakening and freedom provided by this third aspect of double entry bookkeeping is set aside. I think I am the sole author of the Result, thus I never come to the realisation that it expresses a relation between me and the world I act within.

If I were to realise this, I would see that the values recorded in the Income and Expenditure Account express my relationship with the world around me. The true purpose of the Closing is to awaken me to the fact that my activity takes place in a social setting. It reveals my interaction with others, whose activities I have helped to make fruitful (or not, as the case may be).

A Threshold to Pass

Having discovered the laws of perspective and then having immersed themselves completely in an understanding and deepening of its significance, painters took the next step. In the first third of this century, Braque and Picasso opened a new way, in which the subjects are presented from several angles at the same time. The observer is no longer

tied to his particular point of view, but is called upon to integrate other points of view in his vision of reality.

This same phenomenon exists in the evolution of bookkeeping. In our time, money and bookkeeping are coming together to form an organ of perception for economic life. It is now time to give conscious expression to this organ so that it can allow me to perceive more than my own point of view, to grow beyond myself and thus to cross the threshold that separates “me” from the others and from the world.

This process (of recognising money-become-bookkeeping as an organ of economic perception) begins when we make visible to ourselves the three different aspects of bookkeeping described above – the Balance Sheet, the Income and Expenditure Account, and the Closing. It is this step in the evolution of bookkeeping that can alone make sense of the growing confusion, uncertainty and loss of coherence in modern economic life. In the first third of the twentieth century, many economists can be seen trying to take steps in this direction. Germany’s Silvio Gesell comes to mind, along with Frederick Soddy in England. Then there were the stamped money schemes of the 1920s and the Worgl experiment in Austria in the early 1930s, approaches to the problem that find renewed expression in today’s many local exchange trading systems (LETS). But most of these attempts were based on the trading aspect of the economy. They did not reach the question of the Result, namely, to whom does the surplus or deficit belong?

Uniquely at that time, however, the Austrian seer, Rudolf Steiner, did make this step. In a little-known course of lectures on economics given in July and August 1922,⁵ Steiner described how money in our times must become a form of global bookkeeping.⁶ In the terms of the discussion at that time, he detailed how money has three qualities or forms, which he defined as purchase money, loan money, and gift money. It would take us too far in this article to look in detail at what he meant, although the reader is encouraged to do so in order to appreciate better the importance of waking up to the true nature of modern bookkeeping. Suffice it to say, that the three qualities of money that Steiner identified are directly equivalent, in the language of bookkeeping, to the Income and Expenditure Account (purchase money), the Balance Sheet (loan money, including own capital or net worth), and the Closing (gift money – whether in the form of a surplus or deficit).

The development of such an organ of economic perception is open to everyone who takes the initiative to do so. It is an open secret, marking the path that we need to tread if we wish to master modern economic life and manifest its human quality.

⁵ Steiner, R. 1996. *Economics*. New Economy Publications, Canterbury, England.

⁶ “What is it that really emerges when we think...that in circulating money we have a kind of reflection of that element of use and wear which is in fact present throughout the whole range of consumable goods...? In a money which wears out we have a parallel process to goods, commodities, real values, which also wear out. What have we, in effect, if we perceive this parallelism ... between the real value and the token value? Truly we may describe it as a kind of bookkeeping system for the whole world economy.” Ibid., p.168.