# Money, Credit and the Future of Banking

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# Money, Credit and the Future of Banking

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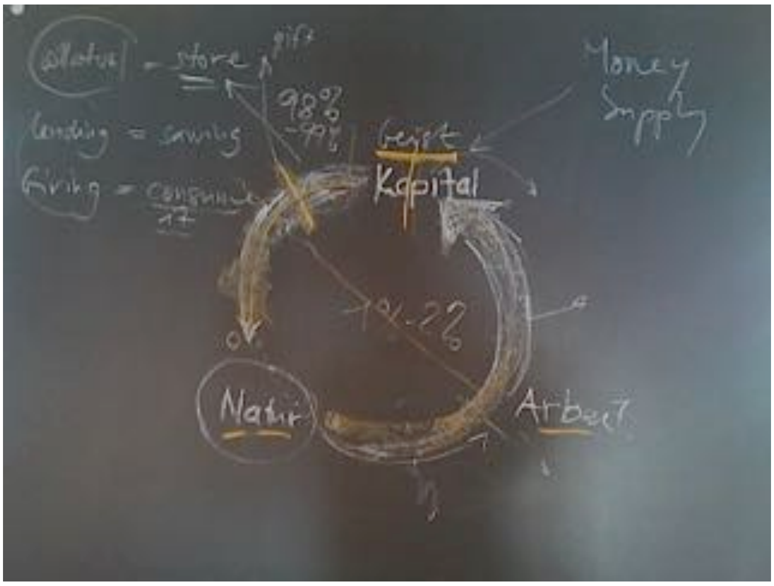
*"Economically speaking, it makes no essential difference whether, for example, I issue money which has no foundation in reality but represents a mere increase in the amount of paper money, or whether I assign capital value to land." – Rudolf Steiner*




*Real and Apparent Values*

Could Switzerland fund itself for two generations without income derived from earnings? Apparently the answer is yes, if it were simply to realise its 'land values'. The figures make this clear: the total value of real estate in Switzerland is in the region of 50 times the amount of the total annual income of its citizens. So by the simple process of selling the land beneath their feet the Swiss could be idle for a couple of generations. Notwithstanding the mathematics, it must be immediately obvious that something about this does not stack up – the values attributed to real estate cannot be real!

What is behind this phenomenon? How do apparent values enter the economic process? And not just in a negligible way but such that the whole arena of valuation no longer reflects the underlying economic reality? Lecture 5 of Steiner's economics course addresses this topic head on and it was to this text that the 4th Economics Conference research seminar at L'Aubier addressed itself. This involved a careful comparative study of English and German texts with reference to Steiner's blackboard illustrations. In these lectures, it makes a great difference that one knows to which part of the sketch Steiner is pointing when he says "here" or suchlike. For example: *"Thus, the only sensible thing will be for capital at this point (sketch) not to preserve itself in land, but rather to vanish into land."* We built on ground covered in the previous seminars and Marc Desaules guided us through the research by highlighting the pertinent passages and expanding on the key thoughts of Steiner:

*“In a healthy economic process we must not and cannot give ‘real credit’ – credit based on the security of land – not even to a person working on the land. He, too, should only receive personal credit – that is to say, credit which will enable him to turn capital to good account through the land. If we simply unite land with capital, capital will become congested the moment it arrives again at land.”*

Thus, when capital arises in the economic process by *en*valuation (work on land and division of labour) a corresponding process of devaluation is called for: namely that it either be spent, thereby releasing the value back into the natural realm (because natural products gradually decay), or that it go toward the creation of new means of production (whose value will depreciate over time). In economic terms there are no other options; but if this does not happen, the capital effectively leaves the economic process in order to preserve its apparent value, in the form of a collateralised asset. This is where the illusion begins, the land is mortgaged to enable value to be maintained. The value, which is apparently saved, exists only in legal terms, as a contract that can be enforced; but the snowballing life of stocked capital with its abstract existence imposes a higher and higher charge (rents and interest) on economic productivity which eventually makes the whole thing unaffordable.

As Steiner says: *“But is this increase in the value of land a reality? Certainly not.” By nature, land can never increase in value.”* The corollary of capitalising land (which means attributing to land an economic value which it cannot, other than through improvement, have) is the world of financial markets, money supply, banking, etc., which falsifies real economic values by introducing apparent ones.

The solution for Steiner is clear: *”In the economic process it is high time that we learnt to understand the difference between real values and apparent values.”* This means an end to real credit (namely collateralised lending against land and other ‘assets’) and an emphasis on personal credit, meaning that real investment can only be in the unfolding capacities of human beings. “Lend to the man, not the asset,” as the old banking adage went. Furthermore, such an approach is premised on embracing, not avoiding, ‘risk’ because risk-taking is the hallmark of real initiative. Security in this realm is an illusion, or at most a form of self-preserving egoism that is beyond its sell-by date in a global interconnected economy.

To gain such an insight into the economic process is not beyond the ken of anyone who has the will to really look at it. The stumbling block appears to be an old consciousness of capital preservation that blinds us in its headlights, thereby paralysing the will in favour of conventional wisdom.

Today’s economy has reached the limit of viability – there are signs all around us that this is so – and people react in fearful ways, mindful of their own ‘security’. Such an approach will not help us. Confidence in the future is needed, confidence built on real knowledge and faith in our humanity. To capitalise another human being is to recognise his spirit and this is the only sure strategy on which to build a human future. The world, as it is, has become dangerously dependent on the presumed existence of apparent values, this needs to change by way of policies that gradually introduce personal credit and desist from capitalising land. Legislative measures to put a stop to collateralised lending will not solve the problem by themselves, however. What is needed is real economic insight and the change of culture that comes with it if we are to stop stocking capital in land: for it is this that Steiner describes as so ruinous for the economic process. But perhaps there is a place for political initiative of a kind, if for no other reason than to highlight what is surely the basic financial flaw in our current modus operandi. What is certainly needed is a clear statement of Steiner's analysis that policy makers can assess.

The economic logic that Steiner describes speaks for itself – it simply needs to be represented in such a way that contemporary economists can have that 'aha' moment and then draw their own conclusions. These may be far-reaching and even encompass the epistemology of economic methodology. Even in a throw-away remark Steiner penetrates to the depth of the problem:

*"You see, if you have an error in your system of thought you do not observe its full effect to begin with. For, however many disturbing processes in the organism are in fact connected with the error in thought, the connection is only recognisable if our science expands to include the intangible, but without losing the discipline that observation of the natural world schools us in."*

Contemporary economists, bankers and finance ministers are caught within a system in which the error in thought is not observed or acknowledged in the full scale of its effects. This needs to be brought to their attention in a tactful and appropriate way if we are to stop perpetuating the unreality of our present financial circumstances.