

Associate! February 2022

100 Years Economics Course
21 Years Economics Conference

Newsletter of the Economics Conference of the Goetheanum

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In this issue, there are some technical treatments and both historical as well as current examples of what the overall theme hopes to address: how is the threefold nature of social life effectively approached, recognized and unfolded today?

Fionn Meier starts us out by questioning the image of 'threefolding' that many people have come to equate with Rudolf Steiner's analysis. Fionn's thesis rests on the idea that centering social life must begin with something that is already in the world, not with inventions that are to one side of modern economic thought and practice.

Then *Nicholas Dodwell* describes his experience of working in Germany with hopes of awakening awareness of Steiner's ideas, albeit in the political arena. (The article also references a film and critique on threefold ideas.) Meanwhile, seeing through the lens of the world as one economy, *Marcelo Delajara* considers, in the specific case of the Russian pipeline, what happens when politics driven by egotism override the inherent altruism and division of labor implicit in an economic life left to work autonomously.

Christopher Houghton Budd, reporting on a seminar of central bankers, describes how a market perspective can be widened when informed by Steiner's analysis. In this example, such a view depends on how one understands the twin aspect of finance – revenue and capital.

Concerned with taxation, *Stephen Vallus* introduces an interesting twist of US history with his article about "The Whiskey Rebellion". He leaves the reader with plenty of questions for further research into the foundations of US finance. But one thing rings clear from this piece: United States history can only be understood in the context of a world economy, despite her best efforts to appear self-sustaining.

Two somewhat technical pieces follow, requiring the reader's slow consideration. One by *Patrick O'Meara* on Socially Responsible Investments and the other, a collaborative report on the techniques of accounting, provide ground to stand on when approaching these very large questions of how to bring order into the social chaos of today. Finally, *Meg Freeling's* glimpse into a moment of shared history – The Great Depression – gives a hopeful breath as she recounts the story of one man, Julius Rosenwald, and his choices of selflessness over greed. She writes in the context of the previous article on accounting, accentuating 'The Closing' as an opportunity for awakening one's sense of social responsibility.

In review, I sometimes wonder how discussions, especially technical ones on accounting and finance, can be relevant or even antidotal to the chaos prevailing in most people's lives these days. What help, guidance, or insight is thereby offered to lead one out of the confusion of today's circumstances? But when one studies the archetype built into the very structure of accounting, the fact that such a praxis exists, exhorting us to rise above egotism, as if a last chance to ennoble each and every human being is safeguarded in this very dry tool called accounting, for me, anyway, I find my faith in humanity renewed.

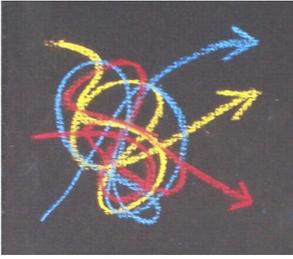
In 1911, Rudolf Steiner spoke of faith and of losing it: "And if people were really to lose faith, they would come to see, even in the next century, what this would mean for evolution. For if the power of faith were lost, people would have to move around the world in such a way that no one would know any longer what to do with himself in order to cope with life, that no one would be able to stand in the world because he has fear, care, and anxiety about this or that."¹

Accounting is the language of economics that is used to speak a world into being! But what what kind of world? In answer to this, we close by reiterating *Marc Desaulles'* description of the accounting process.

With best wishes to all as you pursue your endeavors in 2022,

Kim Chotzen

¹ GA 130, 2 December 1911.



Threefold Society

Fog and Clarity:

Understanding the Threefold Nature of Society

Fionn Meier / Winterthur, Switzerland

When Rudolf Steiner described the threefold nature of society he never distinguished between micro, meso and macro threefolding. However, in the German-speaking world (and probably also beyond) this concept is now a very common idea.

It was invented in the 1970s when many anthroposophical institutions were founded. Along with this idea, many consultants appeared who started to explain how an *institution* can be 'threefolded' (hence: meso-threefolding, with *micro* meaning the individual and *macro* society as a whole). Many books have been written on this topic, each author developing his or her own theory about which part of an institution belongs to which sphere and how it needs to be organised.

Unfortunately, this has created a lot of fog, whereby some fundamental concepts of Steiner have become lost to sight. Probably the most crucial one is his attribution of contracts to economic life, law to rights life, and advice to spiritual life. After the 1970s, for example, contracts and laws were seen as *both* belonging to rights life, something which is still common parlance among most 'threefolders' today.

Why, though, is the attribution of contract to economic life, laws to rights life and advice to spiritual life so crucial? For the following reason. Every adult person knows contracts, laws and advice from daily life. These three 'institutions' are not an invention but are real factors in today's world. Indeed, worldwide! But usually not much thought has been given to them: Where do they belong, and where not?

From such a simple consideration, it becomes possible – not as an ideology, but from observation and thinking – to understand that society has a threefold nature. Contracts, for example, can be used for the exchange of goods and services whereby both parties involved benefit. This is economic life.

Similarly, one can see that there are certain questions for which we need abstract rules (laws). For example, that child labour is forbidden, or that a car is only allowed to go at a certain speed within cities. Such rules need to be decided democratically, as they will affect everyone. This is the field of rights life. And it can easily be seen that abstract rules (laws), which are the instrument of the state, are not suited to organising economic life. Just as, vice versa, if the state starts to make contracts (for example, about pipelines), economic interests will infiltrate the state such that it can no longer guarantee a proper rights life.

Ideas like this can be developed further, but here I just want to hint at the explanatory power such a differentiation has. With contract, law and advice we have something similar to accounting, something that is already there in the world; we just need to look closer. In that way, we can build a bridge from today's world to the threefold nature of society, which on the one hand is already there – contracts, laws and advice are not an invention – but on the other hand is in a complete muddle. In many cases, these three instruments are not used in an appropriate way. Our task is to become clear about them and to use each only there, where it is a proper fit.

Further, and to return to my beginning topic, these three instruments render the differentiation between micro, meso and macro threefolding obsolete. A contract can be between two people or the whole world (as for example, Keynes's 'International Clearing Union'). Also, the law and advice range from micro to macro. So that one does not need to invent a new threefolding for each sphere. There is only one threefold nature of society – spiritual, rights and economic life in their various manifestations – from which fact the idea of micro, meso and macro worlds distracts our attention.

A New Impulse for Threefolding in Germany

Nicholas Dodwell / Karlsruhe, Germany

Since the onset of the 'Corona era' in March 2020, Germany – and indeed, all of humanity – has been in upheaval. From the very beginning, a vocal minority has been protesting against the government's measures concerning the pandemic, which they see as infringing on the basic citizens' rights which are enshrined in the German constitution (*Grundgesetz* / 'Basic Law'). Right up until today, hundreds of

thousands of people have been regularly protesting at demonstrations in Berlin, Leipzig and Vienna, to name just a few cities.

In the summer of 2020, two political parties were founded in order to gain access to parliament and to reverse the government's actions: *WiR2020* (which stands for Widerstand / resistance) and *dieBasis* (which stands for Basisdemokratie / direct democracy). With high hopes, *dieBasis* campaigned in the German federal election of September 2021. They were, however, disappointed, with a result of 1.35% of the vote.

Professor Christoph Hueck, formerly of the Stuttgart Seminar for Waldorf Kindergarten Teachers and now a member of *Akanthos Akademie*, was the pioneer who was a co-founder of both parties and who embedded the threefold social order in both of their preliminary party programmes. Together with a group of Waldorf teacher colleagues, I followed Christoph Hueck first to *WiR2020*, then to *dieBasis*. The message was: "There are many people here with an urgent interest in the threefold social order, but with little knowledge about it: come and tell them something!"

This was really the case, as we found out. Since then, we have been working as best we can, in the given situation. There is not yet an impetus for regular study groups, but we give short talks and write articles. An influential online lecturer is Axel Burkart, and a further threefolder, Reiner Schnurre, has made a well-received film which has just been released with English subtitles.² (See sidebar.)

I am well aware that Steiner warned against propagating threefolding in a party programme. On the other hand, he also advised that if you can get into parliament, you can pursue 'obstruction politics' to try to prevent decisions concerning spiritual or economic life.

dieBasis does not have a set party programme yet, just a preliminary 'framework'; which also contains a short passage on the threefold social order. This framework still awaits enlivening. The party has about 30,000 members, but many of them know nothing about threefolding. At the moment, I am part of an editorial team which issues a monthly online *Rundbrief der AG Dreigliederung nach Rudolf Steiner* (Newsletter of the Working Group for Threefolding according to Rudolf Steiner). Our main author is Stephan Eisenhut, the well-known editor of the anthroposophical journal *Die Drei*. We have about 1,000 subscribers – not many compared to the total party membership – but still a sizeable number. These are the people we want to come into contact with; this is the reason we are in the party. A typical letter to the editor states: "We have a study group for threefolding in our local party chapter, and we are grateful for the input we get from your newsletter."

Whether *dieBasis* will have more success in the future, I don't know. But for the moment – and I want to make the most of this moment – the party gives us a platform to learn about threefolding together with many newly interested persons. It is of course only a beginning, but it is also something worth doing. The impression I have gained is that the idea of threefolding is not that unknown in Germany, albeit 'under the radar'. It is fairly easy to talk with people about spiritual life, rights life and economic life, and also about Liberty, Equality and Fraternity. Take for example the Waldorf schools: there are about 245 in Germany – in every medium-sized town – and a good many teachers at each school see their institution, more or less, as a 'germ cell for free spiritual life', as Steiner called it. So the idea has spread.

We have by no means yet embarked on the propagation of financial literacy, or on matching Steinerian terminology (purchase money, loan money and gift money) to terms from bookkeeping. All our essays on money deal with their subject using Steiner's terms. At the moment, delving into this topic is for us, as they say in German, 'Zukunftsmusik' (future music). However, there is a growing interest in Local Exchange Trading Systems and other forms of locally organized economic networks as many anticipate economic difficulties in the future.

An Aside

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Readers will make up their own minds, of course, but, while I think this film is worth watching as a primer in Steiner's threefold ideas, it is clearly staged. This makes for a fine film but undermines its objectivity. I also fear it is naïve about what is possible in Germany ever since the Treaty of Versailles effectively blocked Steiner's initiative, since when Germany has not been allowed to be herself nor, surely, will she be if that means giving expression to what Steiner had in mind.

For example, one should be wide-eyed about the European Union. I simply do not understand how this construct is compatible with what Steiner described, let alone its currency – the euro. Apart from being linked to a central bank, which in Steiner's image of economic life would not be existing any more (central banking and associations cannot co-habit), the euro is a false, i.e. political, currency without a true economy related to it. Moreover, belonging as it does to a supranation not a nation, the European Central Bank is without a true polity and so answerable to no one, except the likes of the Goldman Sachs partners who regularly appear in EU public financial positions.

The only way past this, in my mind, is through three kinds of money as translated via accounting, because that is the only way to transcend the universal grip of the kind of thinking and policies that otherwise inform modern finance. Deutsche Bank or Lufthansa, for example, do not operate other than by Chicago or St Gallen rules. The fact that they keep German names is a mask.

² <https://www.youtube.com/watch?v=WLGifHCR3gg>



Associative Economics

It's a Great Day for Economics

Marcelo Delajara / Mexico City

2: Russian Pipelines and the Global Economy

The situation that has arisen around the Russian-German Nord Stream 2 gas pipeline shows that humanity is still far from acknowledging the true relationship between economics, culture and politics. In particular, a century after World War I, it seems that we cannot organize our national societies and the relationships between them to profit successfully from a single world economy and enjoy a durable peace. The gas produced in one part of the world is needed in another part. The producers are ready to give it to the consumers. The consumers are ready to buy it. Economic value will be created in its extraction, transport, distribution and consumption at its destination. It will be cheaper than the gas imported from overseas. So what is the problem? Why has the project been halted by the German government?

The problem is that a Russian state-controlled company produces the gas, and that the consumers are in Germany or in other Central European countries. The transport of the gas is through an underwater gas pipeline (under the Baltic Sea), which means that the pipeline does not pass through any other national territory. Crucially, it does not go through Ukraine (like other Russian gas pipelines). This has led the government of Ukraine and other European governments to think that the Russian government could now block Ukraine economically, cutting off its gas supply, or even invading it, without jeopardizing the purchase of gas in Central Europe from Russia.

The Russian government has not denied its intentions to invade Ukraine, which now has a pro-Western government supported by the German government. Vladimir Putin has recently argued that economics should not be mixed with politics, so the project should go ahead. The former German Chancellor, Angela Merkel, replied that precisely he should not use the economy as cover for his geopolitics of expansion and domination over Ukraine. Moreover, according to the BBC, the project has infuriated the US government. The Americans fear that more Russian gas means more Russian influence and less share of the lucrative European gas market for American liquefied natural gas.

How can we untie this knot? In the previous paragraphs, I mention the word government many times. It is clear that political and economic interests are entangled here, without the possibility for those truly interested in moving forward to have decision-making power, or at least a say in the solution.

Ideally, a good starting point would be for the Russian government to admit that the sentiment of the majority of Ukrainians does not necessarily reflect that of the pro-Russian minority living in that country. Western governments should also stop demonizing Russia in the presence of a significant pro-Russian minority within Ukraine. That would allow Ukrainians, including the Russian minority, to agree freely among themselves on fundamental aspects of their culture, government, and coexistence in general.

It would also help, both in the short as well as in the long run, and this is true for all governments in oil and gas producing countries, if the Russian government handed over the control of the country's extractive economic activity to true entrepreneurs. In this way, producers, distributors, and consumers around the world would conduct this economic activity following the economic logic inherent in a single world economy. Consequently, the economics of the energy sector would better serve the interests of humanity as a whole. This, by the way, is also a necessary step if we are going to phase out the fossil fuels in favor of clean and sustainable sources of energy soon enough.

Finally, German, Swiss and other Central European gas consumers should hold talks with those countries' import and distribution companies, in order to define the true price of gas. Nothing good will come from threatening consumers with exorbitant prices should the Nord Stream 2 project fail to start. Consumers neither should be forced to buy equally expensive gas imported from the other side of the Atlantic Ocean just to limit Russian influence in Europe.



The Plague and both their Houses...

Twin finance down the ages

Christopher Houghton Budd / Folkestone, England

From time to time, I participate in a gathering of monetary historians active in the City of London, and so a good place to have one's finger on the pulse of current thinking. Often this is not as far from associative economics as one might think. That is not lens used by the participants, of course, but this means they gather information with a kind of neutrality of expectation. This is then placed in a market perspective, but often I see something else. Based on a recent presentation by mainstream economists specialising in central banking,³ what follows is a case in point. The text is after receiving comments from those concerned.

In 1630 Venice suffered a combination of famine compounded by plague. The financial response was organised as a three-way affair between citizens' health (in this case), politics and economics. The plague caused a great loss of life (30%) and so also of human capital, as economists today describe it. A special indicator was the collapse of music 'production'. The availability of money froze as a further effect, and so public debt was issued by the Republic (backed by precious metal reserves, although there was over-issue which had to be compensated for against future tax revenues, i.e. future economic recovery). Normal financial disciplines were suspended temporarily – what today we might call quantitative easing overriding independent monetary policy.

This was all effected by *two* financial institutions. The *Banco del Giro*, responsible for deposits and linked to commerce (i.e. entrepreneurs and economic life proper) and the *Mint*, a department of the Treasury and so political, but also the provider of coin. In other words, *two* financial institutions working together to achieve a third, but higher, societal aim – public health (i.e. a 'public good', though one might also think of cultural or educational health in these terms). This anticipates by a long way the distinction between Debt and Issue at the Bank of England, for example, or the now repealed Glass Stegall Act that sought to separate retail banks from wholesale (merchant) banks. As also the distinction one can make between Cash and Credit, or narrow and broad money, reflecting what economists call Means of Exchange and Store of Value.⁴

The question the Venetian example gives rise to is where should such a balancing of the economy ideally take place today, how should it be given effect, and how does one ensure that it is beneficial for all and not a form of manipulation or élitest wealth transfer?⁵

The answer to this question depends on how one understands the relationship between the twin aspects of finance – at its simplest, revenue and capital. Is one a subset of the other, requiring us to prefer or consider one of them as primary? Or do they each have their own ground – material needs, and talents or capacities – requiring us as economists, entrepreneurs and financiers to bring them into their right relationship? Something that neither theory nor rules alone can do. Let alone an omnipotent algorithm.

For this, what accounting understands by Closing Entries is very useful – whereby on a regular basis one settles nominal accounts (income and expenditure) and restates real accounts (balance sheet). It is this that needs to find its macro-economic equivalent if the problem of balancing the economy is to be solved. Not only by external authorities, beyond whose grasp it is arguably becoming, but by every accounting entity of whatever size or scale, when, through the medium of the closing, it determines the allocation of so-called 'surplus value' by transferring its 'profit' to the equity account on the balance sheet, each in its own case and according to its circumstances.

More than that an individual or lone entity cannot do. But that much can be done! And if all entities acted in the same spirit, the world would rapidly achieve the kind of economic and financial stability that we are wont to expect of today's external control of finance, for that is the great difference between the first Renaissance and the second. This was not the thesis of Masciandaro and his colleagues, which was more a 'contrast and compare' exercise. But it does illustrate the twin-sided nature of economic and financial affairs, requiring, not a choice or conflict between them, but their synthesis and reconciliation 'above the fray of self-seeking',⁶ no longer by central authorities only, but by people generally, i.e. the users of coinage and deposits (in whatever form), rather than the issuers or managers of them.

³ Charles Goodhart, Donato Masciandaro and Stefano Ugolini: 'Pandemic Recession, Helicopter Money and Central Banking: Venice, 1630'. (https://cepr.org/active/publications/discussion_papers/dp.php?dpno=15715)

⁴ One could also mention the IMF and the World Bank when working in concert.

⁵ In 1630 Venice the government was made up of merchants and, according to the paper cited here, the emergency funding was not intended to nor did it modify the substantial wealth differentials then existing.

⁶ The image is from Capie, Goodhart and Schnadt: 'Central bankers are, perhaps, seen as having more in common with the judiciary, than with politicians or commercial bankers; and are perceived as both technically expert, above the fray of self-seeking, and a necessary agent (of democratic government) for imposing order on a potentially unruly financial system.' *The Future of Central Banking*. Cambridge University Press, 1994, p.91.



The Violent Birth of a System of Taxation in the First Days of the USA

Stephen Vallus / Fayetteville, USA

Most Americans have heard of the 'Whiskey Rebellion', as Alexander Hamilton named the uprising in 1794 with the intention of denigrating the protesters. But who among us realize just how serious an event this was?

In a familiar story in history, war and bondholders were involved. The latter were represented by one Robert Morris who had trade partners spanning from Philadelphia to New Orleans, Europe and the West Indies. William Hogeland writes, "On behalf of Congress, Morris helped make a deal with France for a large cash loan dedicated to paying bondholders their interest in bills of exchange, as good as gold."⁷ These bills of exchange were "certificates issued by merchant firms and European governments and banking houses, backed by firms' coin reserves, payable in cash on set dates" – this, in contradistinction to the rapidly depreciating Continental paper currency the new government was offering! There was some arbitrage involved as well, a topic omitted here for the sake of brevity. Hogeland concludes [that], "Morris and the revolution financed each other."

During the war, Congress made Morris superintendent of finance. But this was not enough for him. He was looking for an ongoing income stream for the bondholders. States were supposed to pay requisitions to Congress but often they funded their militias instead. Morris decided that taxing all the citizens and enforcing payment with Federal soldiers was the answer to this problem.

Alexander Hamilton, on the other hand, wanted to set up a financial system for the new government and proposed that the \$25m of war debt owed by the several states be consolidated and serviced by the federal government. His proposal, the Funding Act of 1790, which dovetailed with Morris's aim, was accepted in 1791 along with what became known as the 'whiskey tax'. This excise tax was the first tax on a domestic product in the history of this country.

Morality (billing it as a 'sin tax') sold the idea to Congress, but the economic effects were dire for those on the western frontier of Pennsylvania. Wheat farmers could use whiskey not only as a *means of exchange*, but since coin (specie) and credit were scarce, also a *store of value*. The devil is in the details, but suffice it to say that because of lower transportation costs, the eastern urban distillers were barely affected by the tax as opposed to their rural counterparts. Years of conflict over collection of the tax between Western Pennsylvanians and the central government culminated in a militia of 9,500 troops Western being sent to put down the rebellion – in an area with a population of 17,500. These troops were led by ... Alexander Hamilton.⁸

Historian Bouton takes his fellow scholars to task for going along with Hamilton's ruse of a name. He proposes the 'Pennsylvania Regulations' instead. Bouton presents evidence to show that this and other uprisings of the period were intended by the participants to *regulate the government* – especially in the area of taxation. Groups with names such as "the Association, the Society of United Freemen, the General Committee [were] each dedicated to regulating the 'audacious and corrupt administrations' in the state and national governments." In parallel with today's political crisis, the issue was not tax collection *per se* but rather a show of force. Just as today's 'leaders' have their eyes on the global community, Hamilton was concerned about stopping this nascent movement before it spread.

In the end, it was not force that ended the rebellion but rather the realization on the part of the farmers who had taken up arms that they were committing treason. It was difficult to police all the western frontier areas, so tax collections never reached a meaningful level. The Jefferson administration ended the tax in 1801.⁹

What this, all too brief account makes clear is that we have much enquiry to pursue with regard to the financial history of the United States. For example, what were the tax policies promulgated by the Federal government that exacerbated tension between North and South leading to the Civil War? Bearing in mind that the British were the primary market for cotton produced by the American South, what were the roles of Britain and France in the War? Hundreds of local bank-issued local currencies thrived and died throughout the 19th Century. What was the tension between gold and silver during this time in which the US evolved from a primarily agrarian to an industrial power? Were the British involved in the founding of the Federal

⁷ *The Whiskey Rebellion, George Washington, Alexander Hamilton and the Frontier Rebels who Challenged America's Newfound Sovereignty*, William Hogeland. Scribner, New York, 2006, 31-31.

⁸ *Taming Democracy, "The People," the Founders, and the Troubled Ending of the American Revolution*, Terry Bouton. Oxford University Press, New York, 2007, 44ff, 227-228.

⁹ *Ibid.*

Reserve in 1913? During the the 20th century, the US evolved from a global industrial power to a financial one.¹⁰ If in fact US power is now in decline, what does this mean for our work and the role of the US in the world? Is it true to say that the government controls the currency but not the money? And how is this to be understood in terms of associative economics?

Some general references:

Private Property and the Limits of American Constitutionalism: The Madisonian Framework and Its Legacy, Jennifer Nedelsky. University of Chicago Press: Chicago, 1994.

Hugh Rockoff, "The 'Wizard of Oz' as a Monetary Allegory," *Journal of Political Economy* 98.4 (1990), as summarized by William L. Silber in *The Story of Silver: How the White Metal Shapes America and the Modern World* (Princeton University Press, 2019), 25–26.



Making Socially Responsible Investing truly Responsible

Patrick O'Meara / Washington DC, USA

There is much afoot in the United States that might be seen as a hopeful yet blind groping towards a healthy social organism. A significant example is the interest from many quarters in socially responsible investing (SRI), now often renamed ESG investing with its aim of evaluating investments on the basis of their environmental, social and governance merits. The many organizations active in this arena extend beyond those actually investing to others that are focused on representing these concerns from different vantage points, including environmental, labor rights and governance-oriented organizations. The phenomenon of a variety of private organizations working to bring about social change can be considered an outgrowth of the proclivity to form groups or associations that has long been identified as characteristic of American culture.

Equity as the claimant of residual income

But other characteristics deeply embedded in American culture are huge obstacles that prevent SRI from bringing about the meaningful change that many of its supporters seek. One major obstacle is the cherished assumption that equity must be the claimant of residual income. There exists a widely and deeply held belief that capital provision equates to ownership, whether of land or of shares in a company, and ownership entitles one to any profits that arise. Any attempt to limit or, in the case of economic rents, end the flow of these profits into the accounts of owners is fought vigorously and regarded with great suspicion. SRI takes this belief for granted too. Profit maximization based on ownership through capital provision remains its goal. It therefore neither perceives nor attempts to overcome this huge obstacle embedded in people's thinking.

Collateralized or secured credit

This notion of ownership leads naturally to a financial system based on collateralized or secured credit. This constitutes a second huge obstacle to SRI becoming something meaningful as it again does not seek something different. Secured credit is meant to be insurance for the lender, reducing the risk of loss. The borrower in turn benefits from a higher return as long as the underlying income stream continues or grows. When applied widely to anything that has direct financial value this approach to managing risk creates the highly complex and mesmerizing capital markets which define our economic life. Interdependent market values change quickly to reflect new information, feeding on each other throughout the booms and busts of each cycle. SRI remains under the powerful spell cast by these capital markets, failing to imagine that there exists a different, ultimately more economic way of dealing with risk and understanding the sources of value.

Cultural freedom and the First Amendment to the Constitution

Another deeply embedded characteristic of American culture could offer a means of overcoming these obstacles if it came to understand its economic aspect. This is the ideal of cultural freedom as embodied, for instance, in the First Amendment to the Constitution. This ideal remains unfulfillable as long as the financial basis of cultural freedom is not found. This basis can be found when the relationship between the cultivation of capacities and the productive using up of these capacities is considered. To acknowledge and manifest clearly this relationship entails the transformation of economic life through the overcoming of these two obstacles. In general terms, this happens when the cultivation of capacities, education broadly understood, is financed with profits after a limited return is made to those providing capital to an undertaking. In other words, education must become a main recipient of residual income.¹¹

¹⁰ Or was the causation the opposite: emancipated finance drove industrialisation? – *chb*.

¹¹ With the proviso of education understood as representative of cultural life more generally, consider Richard Eells's book, *The Corporation and the Arts*, New York: The Macmillan Company, 1967.

But this can happen only to the extent that the spell of financialization is broken. It must become clear how a conscious relationship between the cultivation of capacities and their productive use creates a new way of relating to risk and providing insurance against failure that takes the place of the capital markets to a great extent. Instead of expected profits being capitalized, traded, borrowed against and discounted at different rates, actual excess profits are used as they arise to fund their ultimate source, education, and to offset temporary deficits when appropriate. Then if operational changes are needed they are made directly in response to deficits and surpluses instead of in the round-about (and wasteful) way through the cost of capital, competition and the bankruptcy process. Instead of being propped up through external leverage, the economy would then be pulled up through the suction of the capital flow decisions made inside it.

We shall overcome one day...

What happens to the obstacle of the cherished idea of ownership when profits are managed in this way? It is entirely overcome but through private ordering not through government edict. Equity rights, including holding title to land, narrow to include a limited return only on actually invested capital. Value derived from possession, from the right to deny access to others, no longer operates. Ownership in the sense of having responsibility then comes to rest with those deciding how profits will be used in light of the need to support education (in the wide sense meant here) and offset deficits.

The first challenge for those pursuing SRI is to understand that these obstacles exist and must be overcome. This means understanding that truly responsible investing involves allowing profits to be managed, *and allocated*, with respect to the need to finance the cultivation of capacities. But it also means understanding how doing this aligns perfectly with the deeper and often hidden ideals that animate our culture. For the ideal of cultural freedom thereby becomes realizable while the legal basis of owning property is left untouched at the same time as true ownership comes to mean taking responsibility for how profits are used.

Once this understanding is acquired, the challenge then becomes how the many organizations pursuing SRI can begin to implement truly responsible investing. What investment vehicles can be created that gather funds to invest in this way, some of which would accept limited returns, others of which would seek no return at all? What methods of recapitalization can be employed to reorient existing companies in a healthy direction? What relationships with pass-through foundations and between companies can be established to begin creating an immediate connection between profits and financial needs? Only by meeting this challenge would SRI make a profound contribution towards creating a healthy social organism, which would as a matter of course have a threefold nature.

Without this, or something close to it, SRI becomes a misnomer.

2022 is an important year in the story of associative economics, marking the **100th** anniversary of its inauguration through a series of lectures given by Rudolf Steiner in July and August 1922 (*Economics – The world as one economy*. Search aeBookstore.com). It is something of a mystery, bordering on tragedy, that these lectures are so little known and so little taken up because the challenges they addressed are with us still, as is the relevance of Steiner's response. Only now they are compounded by 100 years of moving in the wrong direction.

We should by now be seeing the end of nation-state economies; with nations finding their own rights life by, counter-intuitively, allowing economic life to become global and to be rested on the economics of sharing, something that is impossible if people do not make primary their need for individual autonomy (i.e. a free spiritual life).

If it is not to be slave to markets, politicking and all manner of manipulation, such a single global economy requires its own governance, which in turn presupposes viable axioms – the axioms, that is, of partnership or what in French is called *fraternité*. The economics that belongs to this, the economic conception that allows it to have practical expression, is what Steiner's lectures outline. Their rubric 'associative economics', is derived from his image that the players in economic life need to associate with one another and not compete against one another if a truly human economy is what is sought.

Quite how, when or where this approach will take root long – and deeply enough to become tomorrow's story – remains to be seen. But the name of this journal, now in existence under various guises for 20 plus years (<https://economics.goetheanum.org/publications/newsletters>), is about precisely that:

Associate!

Associative Financial Literacy

The image shows two T-accounts written on a chalkboard. The first T-account is for 'EQUIP' with 'E' on the left and 'S' on the right. The left side has '70' and the right side has '70'. A diagonal line is drawn from the top-left to the bottom-right, with 'Ø' written in the center. The second T-account is for 'GAS' with 'E' on the left and 'S' on the right. The left side has '20' and the right side has '20'. A diagonal line is drawn from the top-left to the bottom-right, with 'Ø' written in the center. Below the 'GAS' T-account, there are additional numbers: '10' on the left and '30' on the right, with a diagonal line and 'Ø' in the center.

Associative Bookkeeping¹²

A work-in-progress report

Compiled by CHB mainly from contributions by Daniel Osmer, Stephen Vallus and Stephen Torr

Accepting, per Steiner, that capital becomes emancipated through traders trading with traders,¹³ this is why merchant banks are at the forefront of financial evolution. But with this development comes the growth of egotism as the driver of economic life, giving rise to owners or representatives of capital attempting to separate it from the wider economy, especially the real economy.

This manifests as capital (equity) becoming – in our minds, but not in reality – emancipated from liability status, as if it were not a debt of some kind. In the USA, a turning point for this development occurred during the second half of the 19th century, as the profession of accounting came to prominence simultaneously with the emergence of steel, rail and oil corporations (Rockefeller, Morgan, Vanderbilt, etc. and their shareholders). A 'science of accounts' was introduced in the first issue of the *Bookkeeper*, where accounting was viewed as a mathematical science – see the work of Charles Sprague and his *Algebra of Accounts* (1880).¹⁴ This new 'accountics' represented double-entry bookkeeping as an algebraic opposition – a formula, whereby the entire trial balance can be expressed at its simplest and most correct as Assets = Liabilities.

Benjamin Franklin and his colleagues would have understood why capital is a liability account and also not exclusively private. Even the first American merchant investment houses (families) honored the original accounting equation and acted accordingly until the 20th century.¹⁵ But Sprague, by manipulating the equation using the rules of algebra, questioned the convention whereby debt and equity (own capital) were both considered to be liabilities. "How can that be?" It did not make sense; how can capital be a liability? It should be: Assets = Liabilities + Equity, or Own Capital with both signifying Proprietorship.

In 1882, an article in the *Bookkeeper* then wondered, "Is the Capital Account a Liability?" The founding members of the New York University Business School, established in 1900, were also the architects and promoters of the adoption of the new accounting equation. The new formula was common sense and was thought to capture the essence of double-entry bookkeeping. The practice spread westward through various schools and universities as the accounting profession gained status and importance in an economically-expanding America undergoing industrial revolution and huge growth of the 'share' company or stock corporation.¹⁶

There seems to be a thread from the origins of the 'capital account' to Sprague's *Algebra of Accounts* and his 'formula' modifications directly to how accounting is introduced in most *all* university education in the USA. *College Accounting*,¹⁷ for example, states the following: "An equation expressing the relationship of assets, liabilities and owner's equity is called the fundamental accounting equation (assets = liabilities +

¹² As understood here, *bookkeeping* refers to the entering of transactions into a (god-) given framework; *accounting* refers to interpreting, analysing and modifying that framework. 'God-given' because bookkeeping is not a human invention. "Rather, because bookkeeping was a science rooted in the ultimate explanation of the universe, one needed to teach the science of bookkeeping and its principles rather than to rely on abstract, arbitrary rules. Through the science of accounts one gained access to the immutable reality of bookkeeping." – Keith P. McMillan. (1998) "Science of accounts: Bookkeeping rooted in the ideal of science," *Accounting Historians Journal*: Vol. 25: No. 2, Article 2. Available at: https://egrove.olemiss.edu/aah_journal/vol25/iss2/2. This supports the idea that, however accurately it is done, bookkeeping still requires the entrepreneur (the one whose accounts are being kept) to verify not only the placing of a transaction and its arithmetic correctness, but the truthfulness of its expression of the reality behind it. No algorithm can displace this function. This has to be "based on information supplied by the client," as every audit report attests.

¹³ See closing remarks in Lecture 3, pp. 54-5, *Economics – the world as one economy*. Search aeBookstore.com

¹⁴ Charles Ezra Sprague (October 9, 1842 – March 21, 1912) was an American accountant, born in Nassau, Rensselaer County, New York.

¹⁵ The story of Goldman Sachs is interesting here. Goldman would only invest where there was a possibility of real new value being created, rather than speculation. He did not agree with the partnership becoming a publicly quoted company where the intention was to transfer liability to shareholders. See *When Money was in Fashion*, June Breton Fisher, Palgrave Macmillan 2010.

¹⁶ The best source and citation for all this is from the *Science of accounts: Bookkeeping in the Idea of Science*, by Keith P. McMillan (op. cit.).

¹⁷ 6th Edition 1997 by McQuaid and Bille, Houghton Mifflin Company Boston and New York, chapter 1, page 9.

owner's equity). We'll be dealing with this equation constantly from now on." It is further pointed out that owner's equity, net worth, capital and proprietorship are equivalents, just as Sprague describes in 1880.

McMillan goes on to say: "...by deduction from the basic algebraic equation, Sprague was able to illustrate in these two tables what required other authors to deploy numerous rules and to distort the connotations of words. Importantly, Sprague separated the balance sheet equation or the equation of value into two different states, at rest and in motion. This appears to correlate with the manner in which physical objects would be analyzed, at rest and in motion... The equation of value was seen to contain all the intricacies of the double-entry system and truth in political economy."

Also from McMillan: "In 1887, Sprague, the most prominent and respected practitioner and theorist of the science of accounts, presented a monumental lecture series at the School of Library Economy at Columbia University.¹⁸ This course on accountics would be cited many times in the next decade. The new word 'accountics' would become the technical term for the 'science of accounts.'"¹⁹

The accounting equation is shown below in full:

$$\begin{array}{ccccccc} \text{Assets} & = & \text{Debt} & + & \text{Equity} & + & \text{Income} & - & \text{Expense} \\ \hline | & & | & & | & & | & & | \\ \hline \end{array}$$

Assets = Liabilities + Proprietorship
Proprietorship = Capital or Equity

The story of the modifications of the 'Venetian Method' as it travelled westward through Antwerp, London and Edinburgh to Boston and Philadelphia begins by considering single entry as it existed before double-entry accounting. Before the Renaissance, what one might call the 'purse account, was single-entry bookkeeping that merely tracked what was happening in one's account. When 15 came in and then 7 went out, one tracked what was happening using Roman numerals in a narrative format, as the place system of Indo-Arabic numerals was not yet widely known or used (and with it the concept, actually from India, of zero). There was no such thing as 'adding it up in one's head' to get 'the result' unless you were one of the rare students of Leonardo of Pisa. The result became known by physically, spatially, moving representative objects from one side to the other so one could 'see' the result through this external transposing process.²⁰ Rather than

XV came into the purse; VII went out of the purse

with today's consciousness, we would simply write one above the other:

Cash came in = increase of 15
Cash went out = decrease of 7

This was before double-entry bookkeeping came into play and before our consciousness was drastically altered through the extraordinary event known as the Renaissance. The above example of single-entry bookkeeping is really the precursor to the balance sheet. Consciousness changes with the times, so the need became not only to see what I have, but to see where what I have came from. As also what went out: where did it go? How can one 'see' the origin of the 15 cash that came into the purse, which must have come from somewhere, just as the 7 must have gone to somewhere. Rather than

XV came from somewhere in the World; VII went to somewhere in the World

Cash from? = decrease of 15
Cash to? = increase of 7

¹⁸ The first American school of librarianship opened at Columbia University on 5 January 1887 as the School of Library Economy. The term *library economy* was common in the U.S. until 1942, replaced by *library science*. "https://en.wikipedia.org/wiki/Library_science_-_cite_note-13" Wikipedia 12/8/2021 7:45 AM

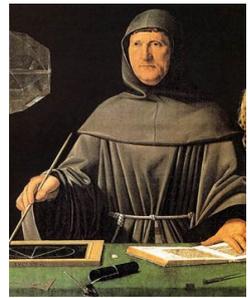
¹⁹ "Science of accounts: Bookkeeping rooted in the ideal of science." Op. cit.

² Chatfield, Michael and Vangermeersch, Richard, "History of Accounting: An International Encyclopedia" (1996). *Individual and Corporate Publications*. 168. https://egrove.olemiss.edu/acct_corp/168 "In the 1850s, private accounting teachers followed the migration westward. E.G. Folsom's mercantile college in Cleveland, under H.B. Bryant and H.D. Stratton, eventually grew into a chain of over 50 commercial business colleges, teaching the rules of bookkeeping to, among others, John D. Rockefeller.

³ From the American Accounting Association, The Accounting Hall of Fame; Established at Ohio State University in 1950: <https://aaahq.org/Accounting-Hall-of-Fame/members/1953/Charles-Ezra-Sprague>.

²⁰ It is not so long since the varying ownership of gold stocks in Fort Knox was tracked by daily movements of bullion between the 'rooms' of their changing owners.

This created a closed system where each transaction that happened to one could be seen as from oneself but also as its counterpart in the world. A new type of account became possible that did not really exist before – the capital account – culminating in what we now call the balance sheet accounts, where the balances are carried forward, i.e. endure. The addition of this capital account under the new double-entry technique made for the balancing possibility in the single-entry example.



The capital account is on the passive side as a liability account because it came from outside the entity being accounted for, as per the 'separate entity' concept. The active and passive accounts always balance to zero, showing the resources needed on the left and the financing of the resources on the right.²¹ Can you imagine using Roman numerals and no possibility of simply adding and subtracting for doing your accounts? At this point, it is Assets = Liabilities; or Active side = Passive side.

With the beginning of double-entry bookkeeping and the capital account, a further distinction occurred between accounts that represent 'my' activity, 'my' trading – income and expenditure accounts (which are temporary and nominal, in that they represent values now gone and at the end of the accounting period are not carried forward but closed out or cleared to zero, ready for a new start), and the permanent and enduring account balances that are carried forward to the next period. This distinction is the basis of the universal language that stands behind today's global financial structure.

When the trading accounts are closed one can see the consequences and effects of one's activity in the world with all those with whom one has conducted one's business. And now, one can ask: Did I receive enough from the world or too much? Were my prices too low or too high? Today's automaticity prevents this question arising, although the clearing of trade accounts through consensus and voluntary cooperation did make a brief appearance among the merchants of Venice along with accumulated surplus forming the first great 'pools of capital'.

October 29, 1929: The Great Crash and the Great Closing

Meg Freeling / Columbus, USA²²

A *Chicago Herald Examiner* headline: 'Rosenwald Aids Workers Caught in Stock Market; Sears Roebuck Head Arranges to Furnish Collateral for Brokers.'

"He made not less than a hundred separate decisions in this one day, many of them of momentous implication... He saved hundreds of persons from immediate bankruptcy. He saw his own fortune in the collapse which culminated this day reduced by a hundred million dollars. He saw his business and his personal affairs plunging inevitably into the most troubled waters. It was one of the happiest days of his life."

In "Awakening to Global Bookkeeping" written in 1997, Marc Desaulles, a director of several businesses in Switzerland, including agriculture and pensions, described the uniqueness and function of each of the three primary accounts used in bookkeeping. He first explained the Balance Sheet as a way to see one's present situation – "what I owe and what I have (am owed)" at a precise moment in time. Then he described the Income and Expense Account as a way, through double-entry bookkeeping, to create "a precise technical relationship that henceforth relates the observer and the world he observes... My activity has consequences in the world and the Income and Expenditure Account shows the importance and the nature of these consequences." Desaulles summarizes the first two aspects of accounting by saying, "The Balance Sheet expresses a relationship in space. The Income and Expenditure Account measures a current, a flow... It expresses process, a relationship in time."

Yet there is a third aspect of double-entry bookkeeping: the Closing. It exists only for an instant, so it is outside both space and time. Desaulles said, "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." At the Closing the resulting surplus or deficit is liberated from its connection to the Income and Expense account and redistributed. The question at this point becomes, 'To whom does the Result belong?' Most people assume: 'It belongs to me!'

Desaulles continues, "But this is a flagrant short circuit that neither recognizes the different nature of the Closing nor puts it to profitable use. The possibility for an awakening and freedom provided by this third

²¹ What economists call the financing of the means of production.

²² Excerpt from 'Julius Rosenwald: A Worthy Harbinger?' *Associate!* June, 2018, available here: http://economics.goetheanum.org/fileadmin/economics/Articles_and_Papers/Julius_Rosenwald_MF.pdf

aspect of double entry bookkeeping is set aside. I think I am the sole author of the Result, thus I never come to the realization that it expresses a relation between me and the world I act within... If I were to realize 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)."

Julius Rosenwald knew accounting and understood the nature of the Closing. For him, the 1929 Crash forced the question, "To whom does the Result (of my wealth) belong?" He recognized that his own activity was taking place in a social setting. He knew he was not the sole author of the Result of the Closing. He immediately saw how he could put the surplus to profitable use to help make fruitful the activities of others (in this case 300 plus Sears employees) when they could have lost everything they had worked for. In that one day, he gave away huge portions of his own wealth to rescue the livelihoods of others. And because he was awake and free through his understanding of the Closing, he acted quickly to change things. He had often said, "All the other pleasures of life seem to wear out, but the pleasure of helping others in distress never does." Thus, it was one of the happiest days of his life.

The Closing

Marc Desaulles / Neuchatel, Switzerland

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.

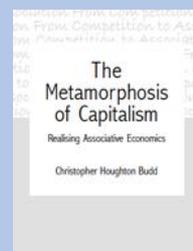
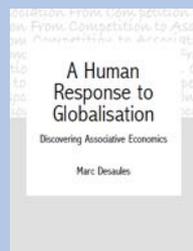
But this is a flagrant short circuit²³ that neither recognises the different nature of the Closing nor puts it to profitable use. The possibility for an awakening and freedom provided by this third aspect of double entry bookkeeping is set aside. I think I am the sole author of the Result, thus I never 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).²⁴

POST SCRIPT: This issue has been organised in accordance with a progression and evolution that is not only sociologically and historically precise, but also implementationally. The threefold image of society gives the ground and context for a single self-governing global economic life (a.k.a. associative economics) made practicable through associative financial literacy. It is interesting to note that the topics addressed in this way have been substantially considered for some time already, witness the three publications mentioned here:

*A Human Response to Globalisation,
The Metamorphosis of Capitalism, and
The Right-on Corporation*

All available from aeBookstore.com.



²³ This expression is subtle. What for many might provoke moral comment is in fact, to begin with, a technical problem; like a mistransposition or confusing 7s and 9s.

²⁴ *Awakening to Global Bookkeeping*. Available at https://economics.goetheanum.org/fileadmin/economics/Articles_and_Papers/1998_Topic_Report_Awakening_to_Global_Bookkeeping.pdf