The Master Metaphor

The link between accounting and economics

Arjo Klamer and Deirdre McCloskey

Reprinted in edited form with the authors' kind permission, this piece (published in European Accounting Review 1.1 (1992): 145-160) does more than chide economists to acknowledge the wrong turn that has been taken when an accounting approach was given up in favour of mathematical modeling of equilibrium, it points to the modernist perspective as the culprit in narrowing the scope of economics by accepting only knowledge from which the human element has been purged. It calls for economics to go beyond the positivist abyss and reground itself in the human conversation by means of accounting.

“… the age of chivalry is gone. That of sophists, economists, and calculators, has succeeded; and the glory of Europe is extinguished for ever.” Edmund Burke, Reflections on the Revolution in France, Everyman ed., p.73.

To outsiders the economist and the accountant look similar, both the calculators in whom the glory of Europe is extinguished for ever. Economists see themselves, however, as distinct, and distinctly more gallant. They see themselves variously as worldly philosophers or social physicists or empirical scientists – the ideal varies, but is anyway distinct from mere keepers of account books, grey men on tall stools.

Yet most economists do not know what they scorn. Few have experience in business. Few have taken a course in accounting. [Yet] economics is dominated by accounting ideas. Most economists would be surprised by the proposition, but in fact their field is ruled by little else. Cost and benefit, rationality and calculation depend on a set of books as a closed system, covering by definition whatever is worth covering. Stocks and flows, capital and income; output net of depreciation; expenditure equals cost; the circular flow; scarcity; choice under constraints. Economists think and calculate with accounting…

In view of its importance in their work the economists could be expected to have an interest in accounting. Once they did. But now they don’t. For all practical purposes the accounting metaphor in economic discourse is dead and its reputation buried with it. Having been participants in the shunning of accountants, we economists are now, in the company of accountants, impelled to ask what would happen if the accounting metaphor were to be revived.

First the economists would have to change their thinking about the history of economics. The shunning of accounting is plain in all the histories. Almost none discusses the interaction between economics and accounting. Joseph Schumpeter’s History of Economic Analysis (1), the most comprehensive and exhaustive, contains only three references to accounting. A reference to Fra Luca Pacioli and the idea of double-entry bookkeeping was deleted by Schumpeter but then reinstated by his wife, who edited the unfinished manuscript after his death. Economists evidently did not learn the accounting directly from accountants. One cannot learn from people while sneering at them. From where, then?

Accounting as a metaphor, of course, existed before the dominance of the bourgeoisie. St Peter kept his books in heaven, and classical literature was littered with business jargon… One might argue, in short, that the Homo economicus, or Homo calculator, of the eighteenth century was an invention of novelists and poets, not of economists and philosophers… Instructed by literary artists, economists were accustomed by the nineteenth century to view the economy as analogous to a single household or business. Leon Walras’ great book on The Elements of Pure Political Economy (3) is filled with explicit accounting. The relation between accounting and economics became particularly intimate during the first half of the twentieth century. The circular flow, or ‘wheel of wealth’, was an identification of the linkages among the accounts of households and businesses.

… Irving Fisher’s The Nature of Capital and Income (2) was ‘an attempt to put on a rational foundation the concepts and fundamental theorems of capital and income. It therefore forms a sort...
of philosophy of economic accounting, and, it is hoped, may
supply a link long missing between the ideas and usages
underlying practical business transactions and the theories of
abstract economies’ (p. vii). Fisher wanted to make the
foundations of economics secure, by beginning with those
testing facts that economists really do know...

John Hicks (1904-89) tried in the early 1940s to bring economics
and accounting closer together. His textbook, The Social
Framework: An Introduction to Economics (4) treats in great
detail the accounts for individual households, businesses, the
government and the economy as a whole. ‘If we want a name for
it, it might be described as Social Accounting, for it is nothing else
but the accounting of the whole community or nation, just as
Private Accounting is the accounting of the individual firm.’ (p.
vii) The book instructs the reader to distinguish stocks and flows,
and to recognize how economic magnitudes are co-determined in
a system of accounts. The student learns to think about economic
events in the first instance as altering the accounts. In other words,
the economic student is to begin his intellectual journey equipped
with accounting tools. For a few years Hicks’s book was popular,
and accounting and economics walked together.

But Hicks’s pedagogic plan was undermined by an event to
which he himself had contributed, the advent of ‘modernism’ in
economics. Hicks set the tone for ‘formalist’ and abstract reasoning
that characterizes modernist economics in his best work, Value
and Capital (5), written a few years before the text. . . .The methods
of general equilibrium and marginal utility analysis constitute the
cornerstones of the book [through which] the emphasis shifts to
the behaviour of individuals. The accounting restrictions are
pushed into the background. The book does not emphasize
balance sheets and income statements, only the diagrams of
indifference curves, supply and demand, and the like.

It was Paul Samuelson, however, who decisively killed the
accounting programme. The Foundations of Economic Analysis
(6) added mathematics to the Hicksian diagrammatic exposition
and persuaded economists to think about economic processes as
the outcome of maximization under constraints. In his hands
individuals become abstractions, imagined as rational calculators...
Balance sheets and income statements are suppressed and
accounting principles left implicit. Samuelson wrote the textbook
that cast Hicks’s Social Framework into the shade. Economics
(7) silenced the accounting metaphor in economics shortly after
The Social Framework had given it voice. The few, boring lectures
on the national accounts are the only occasions in most economic
educations for self-conscious accounting. The lessons are not
extended explicitly into the chapters on demand and supply. And
students of economics see a balance sheet only once, in the
discussion of the money multiplier, although their macro-economics
depends on its specification.

Hicks was not pleased with the drift away from accounting
issues, and became alienated from the revolution that he had set
in motion. . . . His later writing, informed by accounting ideas, was
largely ignored by economists under the spell of the modernist
wizard Samuelson. Hicks could not adjust to thinking solely
in terms of constrained maximization problems. He preferred to think
about economic processes as they influenced the accounts of
businesses and households. When asked (a year before his death)
whether he would like to be remembered as the accountant of the
economics profession, he responded with enthusiasm, explaining:

“I have actually seen business decisions being made on the basis
of projected balance sheets. I think that is the rational way to
make a business decision. A lot of these mathematical models,
including some of my own, are really terribly much in the air. They
lost their feet off the ground.”

The trend in economic and accounting research is plain
enough. Open an economics journal after 1955, or an accounting
journal after 1970, and you will find explicit mathematical modelling,
with econometrics. But along with the modelling, which might
have broadened the discussion, has come a narrowing philosophy
of science. The trend in many business and social science fields
since the 1930s, in psychology, economics, political science,
management, finance, sociology and for a long while now
accounting has been towards ‘modernism’...

Extract from life if you can what is historical, value-laden,
judgmental, ethical, cultural, tacit, skilful, smooth, curved ‘all things
counter, original, spare, strange’; and what will be left is modernism
which] has urged us since the seventeenth century and with
increasing stridency during the twentieth century to dismiss as
doubtful or worse that which does not come from formal and
quantitative experiments directed at testing the implications of
higher-order axioms; it has urged us to leave strictly to the side
the matters of moral force and human meaning...

It is mainly an academic creation, taking its ideas of science
from the blackboard and its ideas of science policy from the army.
It shows therefore in many parts of academic life, in academic
procedures for promotion, for instance, which require not reading
and reflection and earnest argument by the candidate’s immediate
colleagues but a putatively objective procedure resembling
Prussian bureaucracy, and having many of its charms...

The way to get beyond modernism in accounting or in
economics is to pay attention to the ‘rhetoric of inquiry’ in these
fields, to see the way people really argue. The word ‘rhetoric’ is at
first confusing, because most people use it to mean ornament that
deceives, a kind of camouflage cast over speech. One’s opponent
uses ‘mere’ rhetoric. But in an ancient and honourable sense it
means simply the study of all argument, including honest as much
as dishonest argument, logic along with metaphors, good argument
from authority and bad argument from axioms...

Any piece of writing meant to persuade uses rhetoric – that is,
uses appeals to logic, precedence, analogy, authority, evidence,
simmetry, simplicity – to change someone else’s action. A
metamodern scholar would not ‘introduce’ rhetoric; he would
acknowledge it, the better to use it well and honestly. Our claim in
short is that economics, like the rest of our culture, is awakening
from a modernist dream of three-and-one-half centuries’ duration,
turning to nightmare in its last century. The dream is that
knowledge can be ‘objectively’ founded, that one can tell whether
a number is large or small without asking how it fits into a human
conversation, and that the conversation is best limited to the
figures of speech approved by certain philosophers around 1900
as ‘positive’, ‘quantitative’ or, in brief, ‘scientific’. It has been a
useful dream, but it is time in economics to wake up.

3 1897 (1902).
A Sign of Our Time

The Money View: old idea/new thinking

Source: Professor Mehring's 'Money View' Blog (http://ineteconomics.org/blog/money-view/), introduced here slightly edited. The site is worth visiting because it illustrates (graphically) how the money view he proposes is a way of seeing the economics realm in terms of accounting operations.

Historically, modern macroeconomics and modern finance both have their origin in an older tradition that I call the “money view”, hence the name of this blog. And the money view has its origin in attempts by practical bankers, including practical central bankers, to make sense of the daily events of their lives. I am going to view current events through the lens of the money view, and see if that helps to make sense of them. By current events I mean mainly events as reported in the financial press. What I bring to the table is the lens that I use to identify the significant dots, and to draw the lines between them. That lens I call the “money view”.

Four ideas are central to the Money View:

First, everyone is a bank. The interface between each of us and the larger economic system is a daily pattern of cash flow, in and out. That interface imposes discipline on each of us in the form of what Hyman Minsky called the “survival constraint”. Simply put, each of us faces the problem of coming up with the cash inflow needed to meet commitments for cash outflow.

Second, the economy is a collection of these bank-like individuals who are all connected together in a “money flow” economy. My inflow is your outflow. My financial asset is your financial debt. This interconnected character of our balance sheets is the source of its inherent instability, which is to say its dynamic tendency to fluctuate, from one extreme to another.

Third, this money-flow system is inherently hierarchical, insofar as what counts as money and what counts as credit depends on the level in the system. You and I settle our debts (credit) using deposit accounts at banks (money), but your bank and my bank settle their debts using deposit accounts at the central bank, and my central bank and your central bank settle their debts using international reserves. This hierarchical character means that any problem settling debts at one level (discipline) can always be relieved by expansion of money at the next higher level (elasticity), so the dynamic instability of the system involves a shift between excessive elasticity (boom) and excessive discipline (recession).

Fourth, the key institution in a hierarchical money-flow economy is the dealer who knits together the layers of the hierarchy. Everyone is a bank, but the dealer is a special kind of bank that seeks profit by making two-way markets between money (at a higher level) and credit (at a lower level). It's a dealer system that connects it all the way up the hierarchy and makes it into a unified system.

Now from this point of view, what is a central bank? A central bank is, as I have said a dealer, but it a special kind of dealer. Whereas the other dealers are motivated by profit, that's their whole point, that's why they are making these two-way markets, central banks don’t have to be, if they don’t want to be. This is the point that Walter Bagehot famously made in his 1873 book Lombard Street where he pointed out that central banks could play a very useful role in the economy by putting a floor under financial crises.

This idea that there is a special role for the central bank in managing the economy as a whole has expanded in modern monetary policy to be about economic stabilisation and concern for social welfare more generally. Bagehot is the origin of all modern monetary policy.

The funny thing is these are old ideas. So in what sense is this supposed to foster new economic thinking? Here’s the point. Modern macroeconomics and modern finance started with the Money View but then they abstracted from it. All four of these points are nowhere in modern macro and modern finance because they decided to focus on other issues, they adopted a conception of what economists call inter-temporal general equilibrium, which extracts from all of these monetary details.

Our point here is that both modern macro-economics and finance abstract from the Money View. So if we use the Money View as our lens through which we look at current events, we are going to see something different. It’s going to be different but its also going to be new because the conversation for the last 50 years has been abstracting from this point of view. No one knows how to think in the economy in this way anymore. Its an old idea but a new way of thinking.

Editorial

How is one to interpret contemporary financial events? We feel their effects, even if at a distance, but to become pro-active in the realm of causes both a way of looking and a language are needed commensurate with economic reality. This issue seeks to show how economics can reground itself by rediscovering the principles upon which it built itself but which, as our various contributors argue, were lost somewhere along the way.

The main piece, The Master Metaphor, by McCloskey argues that economists need to wake up from the abstract modernism that has taken hold since economics, seduced by mathematical modelling, parted company with accounting after the Second World War.

Sign of our Time features The Money View, an old-new approach that, because it stays close to balance sheets, allows us to see things more accurately ‘the last 50 years has been abstracting from this point of view’.

While Luca Pacioli is celebrated as the father of accounting, in Lessons from the Master, Sangster and Scataglini argue that his pedagogical genius is not appreciated when bookkeeping is merely treated as a mechanical process. Pacioli expected his students 'to use actual examples and amounts from their business’ – an approach that stands in stark contrast to the abstraction of contemporary economics and business education.

Taken as a whole, the pieces provide an insightful grasp of today’s economic complexities. Given the ‘status’ of the authors, all mainstream economists, and the fact that accounting is the medium, it also seems that in this regard the link between associative economics and modern economic life generally is becoming seamless.

The AEX Page this month is mainly a reflection of this month’s theme, illustrating at the same time its topicality despite the view of many that accounting is a bore and a chore.

Accounting Corner rounds off with an autobiographical piece from our resident accountant-editor that affirms this month’s overall theme.
Lessons from the Master

Luca Paccioli’s approach to accounting

Alan Sangster & Giovanna Scataglini


Luca Paccioli, was a Franciscan friar […] best remembered for his 615-page mathematical compendium, Summa de Arithmetica Geometria Proportioni et Proportionalità (A Compendium of Arithmetic, Geometry, Proportion and Proportionality) published in 1494; and for his friendship with Leonardo da Vinci. Many accountants perceive his greatest contribution as being the 27-page treatise on double entry bookkeeping and business contained within his Summa… However, there is another aspect to this treatise that has been largely overlooked: in it, Paccioli set down not only the principles of double entry bookkeeping but also presented an approach to teaching the subject that is unique and largely forgotten… He brings a subject (double entry bookkeeping) to life that is in sharp contrast to the abstract and often meaningless (in terms of context) way in which it is often taught today.

[Paccioli] was a major figure in the Franciscan world of his day, being at one time head of his convent in Borgo San Sepolcro and, at another, superior of the Franciscan Order in the (central Italian) region of Romagna. Yet, his first love and his principal activity throughout his life was teaching and there is much to be learnt from his approach as embodied in his treatise on bookkeeping.

Summa was printed in Venice in 1494 and revolutionised the commercial world, not just in Northern Italy but throughout Europe… Much of the method it describes is still in use today and accountants the world over still apply the principles Paccioli described over 500 years ago. Paccioli’s Summa was the first known book to have been printed on the subject of what would now be described as business studies. In it, Paccioli deals with commercial arithmetic; algebra; weights and measures; barter; currency exchange; geometry; gauging; the legal framework of business; how to conduct a business; business ethics; record keeping; business letter writing; and, most significantly in the context of this tribute, double entry bookkeeping… It was intended for merchants and for use in the merchant schools of Northern Italy, principally in Venice and the surrounding states.

It is written in a didactic style, seeking to instruct, enlighten, and inform. When read aloud in a classroom (which was the intention of such texts) we can recreate the delivery and receive the message conveyed. [Paccioli] did not have [his students] questioning perceived wisdom in the critical manner adopted by some 20th century educators. Rather, Summa reveals that he guided them in what was ‘best’ and explained why it was important that they do as he suggests. By the time Summa was printed, Paccioli had 30 years of teaching experience… Paccioli’s choice of the vernacular in writing Summa was wholly in keeping with humanist principles and the humanist desire to extend knowledge to everyone, not just those with the wealth to afford it.

It may appear surprising to the modern eye that Paccioli’s teaching can be assessed through examination of his writing style… However, in the 15th and 16th century, the text of his bookkeeping treatise would have been used as a classroom dictation script and as a self-instruction manual in the same way that a modern distance learning text would be used.

The style of teaching in Summa, both in the mathematics sections and in the bookkeeping treatise, is what is now referred to as cognitive apprenticeship. Under this approach, the teacher, in the role of a master teaches a skill to his student (his apprentice). During this process, the teacher models the task in a real world context which is relevant to the student, so facilitating student engagement. Once the student has grasped and understood the structure of the task, the master allows the apprentice to perform simple examples. In double entry bookkeeping, this is seen in Paccioli’s treatise in the manner in which he introduces layout, structure, rules, and audit trails, all in a business context, before he enters values. The values are not difficult. It is these other aspects of double entry bookkeeping and appreciating its relevance to and role in business that are difficult and/or vitally important. Paccioli emphasised the fundamental precepts that should be followed when recording and maintaining accounting records and when operating in business:

“[Paccioli] was very lengthy and careful in his minute and detailed description of the various methods employed. The reading of [Paccioli’s treatise] will be a revelation…[Readers] will find that there then existed the little safeguards which are not described or explained in present books of instruction on bookkeeping, but which we accountants are always wont to preach about to those bookkeepers who come under our observation, and which we do not pass by simply as mere suggestions but upon which we insist emphatically with a “You must do this.” Paccioli especially describes these little things with great emphasis, and in a style cunning in the extreme, fully punctuated with adages to bring the truth home so no one could forget it… Writers who have followed after Paccioli have practically all given full illustrations of the journal and ledger, but have rather neglected to explain the “whys” and “wherefores” of the little and valuable details upon which Paccioli has laid so much stress.”

In this quotation, Geijsbeek (*) captures the essence of Paccioli’s pedagogic mission as revealed in his treatise: to encourage learning through engagement; to educate, not just in techniques but, also, in the related issues without which the mechanics, while perfectly executed, are performed oblivious to the world in which they are used. His contextualization of bookkeeping in the business world of the merchant prevents students learning accounting simply for accounting’s sake, something experience suggests we are prone to do today as we insist on teaching bookkeeping without any more than an occasional reference to the business world in which it operates.

Talking of accounting…

When doing your month-end, if you have any spare cash, please give a thought to our crowdsourcing need for £1,000 (US$1,500) to fund the new ae website using either ‘admin@cfae.biz’ at PayPal or cfae.biz/research/donate-for-research/.
While instructing them in how to maintain a system of double entry bookkeeping, Pacioli’s students learn of the risks if accounting records are not systematically maintained; of the need to maintain an audit trial; to remove the possibility of fraud; of the need to be ethical in how the accounting records are maintained; and they are instructed in how to record barter transactions and those in multiple currencies – both vital skills at that time – all with a view to maintaining as accurate and reliable records as possible…

All the journal entries in Pacioli’s treatise involve one debit entry and one credit entry – something that immediately makes learning the topic easier. …Students learn how to prepare the entries and why they are doing so, without any specific amounts being mentioned or entered. By doing so, Pacioli avoids any problems students may have with monetary calculations until they have learnt the mechanics of preparation of the journal entries. At the same time, he explains that only one currency should be used when entering amounts in the columns. Then, once students are able to prepare these entries, he can introduce monetary amounts...

Pacioli clearly believed that the difficult aspects of double entry bookkeeping lay in identifying the correct accounts to debit and to credit, laying out entries correctly, preparing appropriate descriptions, and knowing how to maintain an efficient audit trail through the entries. Entering actual values was secondary to all these, as it should be when all the entries are simple (i.e. comprising one debit and one credit) rather than compound (i.e. with multiple debits or credits).

Pacioli expected anyone reading his treatise to use actual examples and amounts from their business when working through the treatise: “It is not possible to give here full examples for all these operations, but from those few that we give here you will be able to understand how to go ahead in other cases.”

Similarly, in the classroom, it is likely that once the layout and other factors had been covered sufficiently, he either made up examples for his students to enter (possibly on his slate board) or used examples he had asked them to bring to class. It is difficult to fault such a technique. It is simple, very precise, and very straightforward to understand. By integrating and embedding the teaching of double entry bookkeeping into a treatise about business and business practice and integrating the treatise into a book of applied mathematics for business, Pacioli presented his students and those who sought to learn from his treatise with a seamless introduction into how to maintain and prepare the financial records of their business. The complexities of the subject that he omitted would be learnt and applied later.

Unfortunately those who followed in Pacioli’s footsteps and wrote books on bookkeeping and, later, on accounting chose to ignore the non-accounting material he emphasized in his treatise. This separated the learning of double entry bookkeeping from the context in which it exists and, so, isolated those who learnt how to apply the method from knowledge of the rules, checks, and controls needed to ensure the accounting records faithfully presented the reality of financial transactions.

Pacioli led the way. He showed us how to introduce and teach double entry bookkeeping in a manner that met and meets the needs of business. Used correctly, it captures the reality of business… Even in today’s computerised commercial world, Pacioli’s Venetian method continues to play a major role in business… Such has been the influence of Pacioli’s treatise upon business that it has led some writers to suggest that it was a powerful and essential instrument for the management of business, and that its existence enabled the rise of capitalism. Whatever the veracity of such claims, there can be few school textbooks that have been so widely read, understood, copied and applied in practice, and few whose relevance to commerce has been so lasting.

Echoing the quotation from Galileo Galilei at the start of this paper, Pacioli not only taught his students to comprehend the language of double entry bookkeeping and prepare the entries by which it is composed, he explained why it was important to do so and did so by setting his teaching in a business context to which they could all relate.


Today computers compute faster than friar Pacioli would ever have dreamed possible, but they do so within the same framework (accounts payable, accounts receivable, and all) as he did. The efficient friar taught us how to oblige grocery stores and nations, which are always whizzing about like hyperactive children, to stand still and be measured.


Adam Smith’s research programme was not able to combine the theory of economics and the theory of accounting. What is so exceptional in the theory of accounting that it has fascinated the biggest minds (e.g. Wolfgang Goethe)? It seems that it is both its simplicity and abstractness.

- Leslaw Niemczyk

http://paciolicode.com

The term zombie refers to a corpse-like being that has been artificially animated without full consciousness. It has recently been applied to technically insolvent companies, banks and capitalism itself. Although the vital spirit has gone and what is left is an empty shell, the entity will function as long as government stands ready with life support in the form of credit guarantees and subsidies that derive from its coercive power of taxing and legislating. As a counter-image, an associative economy relies on the enhanced consciousness of financially independent entrepreneurs, that is, active and embodied spirits. The emergence of a zombie economy illustrates the danger of favouring bureaucratic measures, designed to prolong the life of the ‘undead’ over the spirit of initiative, which is constantly being born. The sign of an associative economy is the existence of independent economic undertakings, vital and diverse, which, because they meet real needs and are feely capitalised, receive the sustenance they require for their continued activity.

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Associate! 5

FEATURE

MONTHLY VIGNETTE

GLOSSARY

Z : Zombie

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The AE-Exchange...

A forum for news and views. Contributions should be sent to the contact details in the left column.

The Ecology of Currencies

You might like to know that some, like the CEO of Triodos Bank, prefer more currencies than we have to make a diversified ecology.

– Angus Jenkinson, The Centre for Integrated Marketing, Bedfordshire, England

Presumably such people would be referring to the kind of money which requires a central bank linked to a nation-state concept to give it currency. The diversity of ‘ecology’ surely comes about through the plurality of cultural life based on individuals, singly or collectively, with their different tasks and capacities. I see it as the task of economic life (by which we are united in one humanity) to support and serve that cultural plurality. If one takes the state-banking consciousness out of the picture what actually are the differences between currencies?


Beyond Banking

Frank Touby interviewing Tom Greco on Youtube: “Are we talking about the death of banking?”

Greco (chuckling): “I would be reluctant to predict that any time soon. Banking will continue to function as it does. The question is, will we continue to ride along on that train? It’s up to us whether we reclaim the credit commons or leave it in the hands of an increasingly concentrated monopoly.” See

What’s the point of youth financial literacy?

Hi Christopher, your comments yesterday made me reflect. I find your work, as per your last book, Finance at the Threshold, absolutely great for most of the book; that is, until you tail off into young people and financial literacy. I really feel you do Steiner, and keen observers like myself, an injustice here because you don’t take his ‘World Economy’ into the 21st century. We need you to take the worldly argument on, economically, and aside from pointing toward a ‘choir of cultures’, in broad fashion, you don’t take it on from there, and now you are writing about financial literacy...

My challenge to you, Christopher, is that you do take ‘World Economy’ onto its next evolution. Nobody else can do it. So we have localism and we have globalism, as we conventionally know it, and to just leave us with a choir of cultures is not enough. After all, we have one Greece after another, with its “national debt” and you say this is nonsense but you don’t tell us where to go from here. The same story with the banks, globally – where do they go from here, if they are to be part and parcel of a world economy.

Best, Ronnie Lessem, Somewhere in Zimbabwe.

Dear Ronnie,

thanks for the challenge, but challenges can work both ways! These are points we have discussed several times. Though I know you will be disappointed, I cannot do more than reiterate what I have already said, and continue to say in many contexts. In essence, the choir of cultures is not a small thing. It refers to the need to displace the United Nations and all the paraphernalia which lies behind it, with something real between the peoples of the world, not a massive controlling organisation designed to do the West’s bidding. A choir of cultures also is the key to understanding Steiner’s world economy, in which there would be no banks as we know them, nor central banks and national currencies. It’s the key answer to the macro-structural aspect of your question. If it were already there, there could be no ‘Greeces’, no national economies held to ransom by bond markets, no central banks in cohoths with political projects, such as the European Union with its aim to become the United States of Europe. No national debt. No balance of payments crises. No global financial crisis. And no ‘graduates without a future’ because their degrees are worthless and there are no jobs for them anyway.

The issues are immense. In my corner of the universe, teaching finance in City University, for example, I am very clear where the problem lies: with the thinking that underlies modern finance and the fact that this suspect epistemology is foisted on to young people, who simply mouth it forwards. I am also clear that the real change, in my experience, comes when people in business, especially young people, forge their futures and their activities on the anvil of an economic understanding linked to accounting (which is what this issue of Associate! is about, as it happens). Moreover, accounting provides a ‘no man’s land’ between economics, business practice and Steiner’s work, such as nothing else can or does.
...NEWS AND VIEWS

While we reserve the right to edit to fit available space, we encourage robust and rigorous debate.

So I am afraid I ended my book very deliberately where I did, by linking Steiner’s work, the global financial crisis and the need to teach financial literacy to young people, but also to capitalize their initiatives. In the City I was also asked why ended there. My answer was because if young people do not both think and behave differently as regards finance, what hope – really what hope – is there for anything to change? All other cultural paradigms, whatever their merits viz a viz the West, have nothing concrete to say that stops the continued march of bond markets and the thinking and egoism as regards money and capital that underlies them. Human beings need a tool to overcome their egoism in economic life – so that, to cite Rudolf Steiner’s main point (Lecture 3 in his course on economics: ‘...with the rise of the modern division of labour, the economic life as such depends on egoism being extirpated, root and branch... Economically speaking, egoism is impossible.’) This tool, in my view, is, very simply, accounting – once understood and practiced as an instrument of perception, rather than, as is normal, as a technique for avoiding tax or reporting to egoistical shareholders.

Most commentaries I know of do not touch the essence of Steiner’s critique, which is that egoism pervades everything, so we need to start there - not with the effects it has. Nothing else will bring Steiner’s work into the 21st century as far as I can tell. And I have scanned the horizon far and wide for years on end, been everywhere from inside a Green Party tent talking monetary policy to the hallowed halls of the Bank of England or the top floor of the BIS in Basel; from refinancing a Waldorf school with the top management of Grant Thornton to inside the Steiner ‘headquarters’ at the Goetheanum in Switzerland; from my membership of a trade union to participating in the discussions of the Bruges Group. You name it, it one way or another I have empathised and sought to understand every school of economic thought currently existing, not to mention my studies of Aristotle, Thomas Aquinas and many other other ‘greats’ in the annals of the history of economic thought.

These have all become for me, the widely varying, greatly spread out tail feathers of a peacock. A great array of thoughts that remain, however, unconnected and in dispute with one another. If I ask where is the sharpen end of all this, the beak, I arrive every time at accounting a la Pacioli. I am not alone in this, as this month’s feature article shows. I also see it in real life where entrepreneurs and those who fund them need to believe first in themselves not in markets. The only way such confidence can be built, in today’s realities, that is, if one is to face down the bond markets et al, is through accounting-based assessments of their activities. Without this neither can they see themselves in their own right, nor can the bond markets see the error of their ways. And if the bond markets or hedge funds now entering the food economy or oil interests ‘innocently’ changing the terms of trade in Libya and elsewhere, are not to chase all humanity towards the edge of a cliff, worse than that of 2007 – meaning a real cliff not a financial one – do not see through direct financial experience what is being said to them theoretically or ideologically, there will not be, because there cannot be, a genuine paradigm shift. Deckchairs may be turned this way and that, but that, as we all know, does not melt ice.

Best wishes, Christopher.

FINANCE AT THE THRESHOLD

Prospects for associative economics

What does associative economics have to contribute to the world in these times of global financial crisis? Three workshop-seminars to provide an opportunity to review the development of associative economics in the light of today’s circumstances.

Buenos Aires, 1-3 August / Sao Paulo, 5-7 August / Toronto, 12-14 August

Information on all events, including local organisers, from admin@ctae.biz

Future Themes

World Currency / Equilibrium

(Reader’s suggestions always welcome!)

ACCOUNTING CORNER

Commentary from an associative economic perspective.

Stephen Torr

Counting on Experience

Studying at the University of Sheffield, I found myself in a unique position. My dual degree in Economics and Accountancy allowed me to compare both approaches simultaneously.

Although both were taught within the Business School, the courses were entirely separate without overlap or connection between the syllabuses. The approach of each subject was similarly disconnected.

In order to comprehend the concepts required for accounting it was necessary to involve oneself with the actual practice. This involved the study and actual use of the technique of Double Entry Bookkeeping.

Being told ‘each debit has a credit’ does not become concrete until one actively draws up a set of accounts from actual data and (attempts) to make them balance. In this process one really experiences that each transaction results in both a value owed to and a value owed from the entity.

In contrast, economics was taught in an atmosphere of abstraction. Concepts were covered in isolation from both other conceptual, and real world, considerations. Lectures started from modelling hypotheticals, with the thought that only one school could be right, with no consideration of the underlying assumptions.

One only experiences the flow of economic transactions from starting with the practical application of the technique of accounting. From this experience it becomes possible to perceive that each transaction is always made in relation to both a previous and subsequent one, and that by necessity all three are reflected in the accounts of multiple entities and not just the one immediately in focus.

Here one can experience the consequences of whether expenditure is funded from current income or accumulating debt. But also that causes and solutions to economic problems can work in both directions, as one’s income is also another’s expense, both of which are important distinctions in the light of the current economic situation.
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