

From Gold to Golden Rule

- *Citizenised Central Banking*

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Keywords:

absence of gold, active balance, articulated money, auditorial versus marketised / statist central banking, beyond gold, central banking role of temples, descent of the sceptre, differentiated demand, double independence, dynamic instability, economic sovereignty, emancipation from external constraints, financial literacy, financial stability, financialism, function vs institution, 'golden rule', imperfect information, individuation, inherent regulation, mediating between poles, monetary authority, signalling methodology, window into thinking.

Abstract:

Citizenised central banking¹ is the idea that monetary policy functions currently carried out by the central bank will become embedded in the behaviour of individual citizens. At the same time, humanity's historical reliance on gold will be superseded by such behaviour becoming informed by the golden rule, namely, "over the economic cycle, the Government / Citizens will borrow only to invest and not to fund current spending".²

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¹ The term is from Christopher Houghton Budd - used in seminars

² From UK HM Treasury Website

Preface:

Today, monetary policy is generally considered to be the responsibility of government. The state exercises its influence primarily by setting policy objectives for a central bank (controlling authority). The bank aspires to collect appropriate and diverse information from the market, while itself remaining above the 'fray of self-seeking',³ thereby it aims to achieve an enlightened overview enabling it to issue pronouncements on behalf of those it represents. The assumption is made that, by taking this task upon itself, it can come to a sounder judgement than would individual citizens, who act alone and with less perfect information. Thus its role as a benign authority, whereby it overarches other actors, is predicated on the central bank acting as an agent of the wider public interest. This idea rests on the image of a central monetary authority striking one note to suit a diversity of needs, a central decision-making function that aims to unify the separate actions of individual agents. Today, this conception is affected by the phenomenon of global financial markets that now overshadow the capacity of nation states to assert their sovereignty in finance. Increasingly they must listen only to what the market dictates. Thus, decision-making is made subject to an overriding interest greater than simply the central bank acting for its citizens and is placed at a further remove from those on whose behalf decisions are taken. Arising through the course of the 20th century, what does the appearance of this seemingly all-mighty phenomenon, 'financialism', indicate? When central banks are effectively usurped in this way, the assumption is that there is no higher authority than the wisdom of the markets because, presumably, the market represents collective judgment over and against individual judgement (a kind of democratisation of economic decision making). But is that so, or would it be truer to say that the market does not represent judgements, which imply an overview of the whole, but the playing off of vying interests, which are inevitably partial?

If it is a sense of the whole that matters, can one not envisage a role for the individual whereby he grows beyond his merely partial interest to think also of the whole economy as such? In the absence of gold, how might the 'golden rule', not now applied only by a chancellor of the exchequer but by every economic citizen, achieve the discipline necessary to maintain the economy in balance? Through informing his actions with a better understanding of the relationship of spending to investment, could not each individual enact monetary policy at the micro level, as it were, so that our combined actions summed to what is currently effected by the central bank on our behalf? This would involve displacing the 'might' of the market with the 'light' of articulated money,⁴ in which through accounting the means of exchange and store of value functions of money are distinguished from one another, so that the citizens consciously together bring about economic balance rather than, as now, leaving this to the vagaries of the market.

³ The image is from Capie, F., Goodhart, C. and Schnadt, N. (1994, p.91)

⁴ Gormez, Y., Houghton Budd, C., (2003: p. 18)

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1. Preamble

“Beyond gold, economic consciousness prevailed”⁵

That the author of this paper is neither a practitioner working in the banking arena nor a professional academic observing it, may lead the reader to question on what grounds it is written and with what view in mind. The rarefied quality of debate that surrounds monetary science (and as it is embodied in the practice of central banking) presupposes a degree of familiarity with ideas and arrangements that may appear to warn the lay observer off. The aim of this essay is to consider how, seen from the other side, a citizen might correspond in his deeds with a central banking policy perspective and to check his understanding of what this signifies. A world is here supposed in which citizens become economists and the divide between theorists and practitioners is overcome, because practitioners are all those who are economically active. For such a world to come about, clarity of thinking must become apparent in shared images and a common language through which the intrinsic idea of central banking can assume an everyday form. The language of accounting offers the common ground which can support a diversity of activity and reflect back to humanity its economic deeds. Whether such a prospect is an impossible ideal or a matter of the will to think it through, I leave to the reader.

That the approach is heterodox does not imply that it is on collision course with current thinking or convention, it does not, for example, contest the view of Alan Greenspan (Capie 1994: p.241) that the Bank of England has been an example and inspiration to banks the world over, nor that of Howard Davies (2005) that the bank of the future will look rather like the Bank of England today.

A heterodox approach here means adopting a perspective that compliments other approaches, rather than seeking to undermine them – it does that by adopting its own perspective, a perspective not currently arising in an orthodox academic context. A further heterodox element is the inclusion of references to Rudolf Steiner, best known as a philosopher and educationalist. The relevance of his insights, particularly with regard to the need for a scientific understanding of money in an economy that is closed and global, makes its own case for their inclusion. Here is also the place to mention Christopher Houghton Budd of the Centre for Associative Economics, to whom frequent reference is made, and by whom many of the guiding thoughts and images are inspired. His doctoral thesis, *Auditorial Central Banking* (2005b) and other works have afforded a wealth of material from which frequent citation is made.

⁵ From ‘Rare Albion: A Monetary Allegory’ - Houghton Budd, (2005a: p119)