

Money in a Global Economy

Rudolf Steiner's Concept of 'Three Kinds of Money' - Its Presence in Accounting as a 'Touchstone'¹ for Financial Orientation

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Notes Toward a Research Proposal by Arthur Edwards - April 2007

¹ "A stone rubbed by gold objects and then compared against a set of needles containing varying proportions of gold and silver, gold and copper, and all three metals": Bernstein (2000) *The Power of Gold*. By extension, the metaphorical use of touchstone means a reference point against which other things can be evaluated or an intellectual measure by which the validity of a concept can be tested.

1. Introduction

1.1 The Problem – Economic or Political Money?

While economic activity does not take a new course to suit a new theory, it must nevertheless be acknowledged that humanity, through its idea of money, creates a world in its wake. To attempt to understand better the nature of money is not therefore only an academic exercise. Economists, in describing the phenomenon of money, have played a decisive role in shaping the institutions and arrangements that now provide the background to global business activity. When economic life is a global affair, as it has become over the course of the 20th century, money assumes a new logic, for can it essentially be more than one thing in one global economy, albeit expressed in diverse local forms? Is the nature of this ‘thing’ somehow to be politically determined, by institutional arrangements that prescribe its existence? Or is its essential underlying nature free of political² colour, and therefore to be understood (but not determined) from an economic rather than a political perspective? The line of thinking followed here attempts to describe what money is when seen purely from an economic perspective.

1.2 Theoretical Analysis

The analysis of the ‘phenomenon of money’ undertaken here is conceptual and pictorial. No apology is made for the subordinate role of empirical evidence. Logic is held to assume a prior significance to data³ because it can make sense of experience without being determined by it. The analysis itself will thereby become a lens with which to view the phenomena within its scope. The internal coherence and explanatory power of such an ‘idea-led’ approach will constitute the measure of its scientific usefulness. Does it make visible the landscape it describes? Do the phenomena become comprehensible in the light of the monetary analysis it puts forward? If the answer is affirmative, it provides the evidence by which the theorem is proved.

1.3 Originality – Money Beyond Gold

The historical approach to monetary science tends to assume an institutional perspective. For example, its focus on ‘money issue’ is in the context of banking arrangements. The approach outlined in this prospectus proposes to address the question of money in the context of the economic process⁴ (for which no explicit institution need be stated) but which accounting makes visible. Following up Rudolf Steiner’s⁵ indications that money is to be understood as a threefold phenomenon⁶ and Christopher Houghton Budd’s reference to its articulated⁷ nature, the

² Political here means deriving from the perspective of a state rather than party political.

³ The destination to which a person is travelling cannot be satisfactorily determined by describing the journey that he has undertaken so far. If one knows the idea he has of his destination, one can more readily make sense of the route he has taken.

⁴ The economic process is a term that merits a fuller exposition. Its use here indicates that the economic activity itself is the fundamental phenomenon. See footnote 22.

⁵ Best known as an educationalist who worked primarily in Germany and Switzerland (1861-1925).

⁶ “In the social organism ‘money as such’ does not exist; there are only the three kinds of money”: Steiner (1996) *Economics*.

⁷ Gormez, Y., Houghton Budd, C., (2003: p. 18) *Electronic Money Free Banking and Some Implications for Central Banking and Houghton Budd, C (2004) A Single Global Currency, A political or an economic money?*

perspective that ‘money is the world’s bookkeeping’ will be explored, illustrating the linkages between the inherent logic of accounting and modern monetary phenomena, linked not to gold, but to economic consciousness. In this context banking assumes a historical significance as an external form of accounting.

2. Research Overview

2.1 Summary

The global nature of economic life indicates that money is to be understood with reference to its inherent global dynamic, rather than from within the perspective of a national economy that is kept in check through its balance of payments with trading partners (and therefore subject to external constraints). The transition that Rudolf Steiner describes from world trade to world economy has as its implied monetary counterpart the coming into being of a single monetary area, which by implication operates on one money⁸. The idea that money is an articulated phenomenon comprising three elements⁹, rather than a monolithic one, is explored with reference to accounting where it becomes possible to highlight the differentiation in a manner that is both visually graphic and objectively rooted in the principles of double-entry bookkeeping. The primary distinction is a polarity, which is bridged by a unifying element of a higher order¹⁰.

2.2 Rationale

The emergence of the new economy¹¹ and the financial markets indicates that increasingly the basis of economics is not to be found in physical phenomena, but in the world of thinking, as the reciprocity of financial phenomena makes clear. Monetary economics, though a world of pure thought, nevertheless has an ordering effect on phenomena. How can humanity find orientation in such a world other than through thinking? In the world of physical phenomena, man realises that his body provides a check on what he can do. This is perhaps analogous to the historical role that gold has played in finance. In the realm of modern finance, which is thought based, accounting is here held to provide a similar ‘touchstone’ that allows for an otherwise absent orientation. The universal nature of accounting gives it a humanity-wide role. In contrast to economic theory, it has its roots in practice. While the way it is understood may evolve, accounting per se will remain a constant element. As the distinctions indicated by Rudolf Steiner’s three kinds of money thesis are

⁸ At present only implied, but plastic transactions already make this a tangible reality.

⁹ Rudolf Steiner referred to purchase money, loan money and gift money (see footnote 6). Is this analogous to the ‘three functions of money’: a means of exchange, store of value and unit of account?

¹⁰ For example, Houghton Budd, C. (2006) *From closed to open to closed again: How are we to think in a one-world economy?*

¹¹ Terms like ‘knowledge economy’ and ‘weightless economy’ are increasingly being used to point to an invisible but economically real realm. The physical arena of manufacturing is identified less and less as the primary source of value creation. While information technology in general and the internet in particular are most often associated with the idea of the ‘new economy’ in lay terms, they are perhaps only symptoms of this economics of ideas rather than the cause of it. Its contemporary significance and the phenomena it gives rise to, can neither be denied nor ignored. This is nowhere more apparent than in the realm of finance. The physical economy easily lends itself to analysis; a different causality is at work in the new financial economy for it cannot be understood as an expression of the physical economy. As the realm of ‘organising intelligence’ is acknowledged as economically real, so the necessity to make it the focus of economic study becomes apparent.

made apparent in and through accounting it becomes clear how money is to be understood as the world's bookkeeping. A deeper understanding of the nature of accounting results. Taken as a tool through which the economy can be perceived and therefore managed, accounting has the potential to re-ground economics in actual business practice. It thereby provides a medium by which humanity can orientate itself and the significance of phenomena such as the financial markets can be better understood.

2.3. Research Perspective¹²

2.3.1 Monetary History

The perspective of this study does not rely on the assumptions of monetary history. This is not to deny the validity of the historical approach, but simply to notice that by placing empirical experience above inherent logic, it tends to colour the picture. For example, where reference is made to the emergence of money as a medium of exchange at an assumed moment in economic history, the assumption is made that before then human beings did without money. However it might be truer to say that the form of money referred to emerged then. While the form of money may have changed through the ages, this does not tell us when money itself came into being. To decide when that happened one must first characterise money, by describing what one is defining as money. The object of one's study is given a certain form. It is held to become an historical reality only when that designated form appears first. Yet from the perspective of monetary evolution the form itself may turn out to have been only an instance of the idea of money – one of various forms that it has assumed, rather than money itself.

While this example may appear to beg the question, it is intended to draw attention to the overall theme of this research which concerns the acknowledgement that with the advent of global economy the form that money takes begins to metamorphose. Such a transition is clearly evident¹³, and yet there is little unifying imagery¹⁴ to orient humanity in this new landscape. Can one find an intrinsic but virtual understanding of money, premised on the fundamental distinction between cash and credit¹⁵, which when brought towards present circumstances, will have explanatory power?

2.3.2 Banking

In attempting to follow the economic process itself, and by understanding that accounting can represent it in a precise way, one arrives at the fundamental perspective that monetary phenomena

¹² The study of money can be undertaken from diverse perspectives. How one understands the phenomenon of money will in part depend upon the perspective that is adopted. A monetary historian will be likely to see money in terms of the evidence of history. A banker will be likely to take a banking perspective by defaulting to the logic of the institutional "issuing authority".

¹³ Witness the degree and diversity of discussion of the nature of money, apparently a 20th century phenomenon.

¹⁴ Excepting those who call for a world monetary authority and unsophisticated users of money who believe that it somehow represents the gold in the vaults of the central bank.

¹⁵ See 3.2 Categorical Distinction

are nothing but a mirror of economic activity¹⁶. However, while it is true that a person's reflection merely shows him how he is, when he looks in a physical mirror, because he knows that he is the source of the image, the causality in a monetary mirror can become reversed. Money can be seen as something in itself and this something becomes the motive for an economic activity. This way of seeing money results in a banking perspective, wherein money is assigned an active role in driving economic life, and does indeed do so. The perception is then held to prove the theory.

2.3.3 Bookkeeping

When, by contrast, money is understood not to be anything in itself, but a mirror of the economic process, it becomes possible to discern in this image the three elements of which it is composed that exist distinctly but in interrelationship. This is made apparent in accounting and accounting itself can be seen as a contemporary form of money, in which three elements likewise become evident.

2.3.4 Centrism

Centrism is not meant here in the political sense (neither left nor right) but in the economic sense whereby it indicates a state of affairs in which arrangements issue from an institutional centre, rather than in relation to demand, which is both individual and peripheral. To the extent that the idea prevails that money is a thing in itself, one can expect to find the phenomenon of centrism becoming increasingly apparent, both as an explanation of economic life and as a characteristic of current arrangements. A paradoxical aspect of the nature of global economic life is that while foci are needed (for, ultimately, what else is the banking system?) they should make visible but not determine what they are the centre of. The allure of centrist thinking is connected with the role of the state in economic life, setting out to determine what is to be done (rather than simply providing a legal framework for what will be done). When a banking perspective is married to statist thinking the human being is led to the logic of a one-state world. For if the need for a single global currency is acknowledged and if this currency is seen to require a central bank, then this would in effect create a world polity, for such a global bank could not be allowed to operate outside a constitutional framework of some kind, though it may only later be acknowledged or recognised as such.

Yet this outcome is contradicted by the increasingly decentralised reality of life in a global economy in which "credit comes from all over"¹⁷ and the individual is reckoned to be source of creativity¹⁸. What apparently is lacking is the requisite understanding of money through which the conceptual picture is found that allows such perceptions to reach fuller expression.

¹⁶ While in physical terms no one will confuse his image with his body nor look to the mirror for the wellspring of his being, money, when seen as something in itself, can appear to take on a life of its own. It is this life that the study of banking is concerned with (as if the eye of the observer is in the mirror). There is no physical reality check in the realm of finance.

¹⁷ Comment by Martin Mayer, taken from Teunissen (ed.) (2000: p.84) *The Management of Global Financial Markets*.

¹⁸ For example Naisbitt (1994) *Global Paradox*.

2.3.5 Regulation

It is doubtful whether the monetary world could go unregulated. But who is to do the regulating?

- Market regulation – financialism operates by externalising costs and pushing down prices. Individuals attempt to pursue their utility by insulating themselves from generalised conditions which financial volatility brings in its wake.
- External regulation - financial behaviour is increasingly prescribed – the state centres economic life but effectively curbs innovation and defrays the individual of his responsibility.
- Inherent regulation - Individuals enact monetary policy – monetary consciousness balances the volatile and the static.

2.4 Core research questions

- How is Rudolf Steiner's idea of three kinds of money to be formulated?
- Can the articulated nature of money be seen first as a polarity, which is only unified or brought into balance through the appearance of a third, bridging element?
- What economic phenomena point to the articulated nature of money?
- How is this described both anecdotally and more formally in academic literature?
- Does accounting give precise expression to the idea of three kinds of money?
- Is the idea of three kinds of money recognisable in a wider context, beyond those who have studied Steiner directly and specifically among philosophers of accounting and monetary economists?
- What macro-consequences follow from the micro-use of accounting as a 'touchstone' for financial orientation?

2.5 Themes

Problem of definition and the contextual nature of money. The archetypal nature of money and monetary consciousness. Monetisation and individuation. Money as a mirror. Money in a closed system. Money as the division of labour. The analogy of money to water (neutral, sweet, salt). Money accounts human activity. The anthropology of money¹⁹. Monetary history and monetary science. Primacy of thinking in the realm of economics. The economic process. The evolution of banking (relational to virtual). Financialism. Banking and bookkeeping. The invisible hand is gradually displaced. No economic role for gold in the background. Humanity between two worlds. Orientation by imagery.

¹⁹ "Tis evident, that all the sciences have a relation, greater or less, to human nature; and that however wide any of them may seem to run from it, they still return back by one passage or another. Even Mathematics, Natural Philosophy, and Natural Religion, are in some measure dependent on the science of Man." David Hume (1740) *A Treatise of Human Nature*.

2.6 Methodology

Analysis of Rudolf Steiner's concept of three kinds of money. Survey of secondary literature. Description of varied phenomena indicating the differentiated nature of money²⁰: Cash / Credit - Metalism / Chartalism - Current / Deposit - Secured / Unsecured - Land / Capital - Physiocrats / Mercantilism - Trade / Savings. Study of accounting in terms of its history, current practice and in terms of Rudolf Steiner's analysis of money. Does this analysis provide a coherent lens for looking at modern financial phenomena? What micro and macro consequences might result from such an analysis? Semi-structured interview questions to accounting practitioners and financial economists. A description of the world that becomes visible.

2.7 Literature:

Rudolf Steiner: Economics Course. Essays and Lectures.

Christopher Houghton Budd: The Associative Perspective.

Writers who source their thinking in Steiner's Economics (eg - Stein, Barfield, Klockenbring, Reimann, Desaulles, Preparata, Usher).

Mainstream schools of monetary analysis and representative 20th century thinkers.

Heterodox Perspectives (creditary economics).

Literature from other disciplines - accounting / the philosophy of knowledge.

²⁰ See also 3.2

3.1 Rudolf Steiner's Contribution to Economic Thought

“It is necessary above all to grasp the essential nature of money. People fail to grasp it precisely because it is always there before them without their being able to see what it really is. In the social organism “money as such” does not exist; there are only the three kinds of money. Moreover, each kind of money only becomes what it is at the moment when it is actually entering into the economic process or passing over from one form of economic process to another. In this way, it is constantly being changed. The point is that we must learn to know money properly, before we can pronounce what part it plays when it becomes an expression of the price of something else. To penetrate the economic process clearly, we must not remain at the surface, merely observing how things appear superficially.”²¹

Rudolf Steiner 1922

Background:

In 1922 Rudolf Steiner gave a course in economics to a group of students, consisting of 14 lectures and 6 discourses. This course has been made the subject of little formal academic study, in the English language at any rate, though it sets out a monetary analysis that has gained relevance with the passing of time. Steiner grounds his observations in historical processes, sets out his methodology and establishes his value theory before going on to focus on what he calls ‘the economic process’²², which is a global affair, and how this becomes manifest in monetary economics. A key observation he makes is that in the transition from ‘world trade’ to ‘world economy’ humanity comes into a new situation, which, if it is to be managed, must be matched by a requisite understanding of the new dynamic that arises²³. By changing the basis on which it operates, humanity makes conscious what previously was veiled, freeing economics from political or national underpinning and giving it a foundation in thought, which is universal. Monetary economics is key to this. Steiner makes the observation that money is the world’s bookkeeping, and that one cannot speak of money as such, but only three kinds of money. It would appear that the subsequent events of the 20th century - from the question of the gold standard, to Bretton Woods, to recent concerns about the working of the financial markets - provide further evidence for Rudolf Steiner’s view that in a global economy (as opposed to a world of national economies) how humanity understands money and what arrangements it thereby enacts are of key significance. While Steiner made many observations about economics - some of which were also made later by other economists (for example the problem of so called ‘statist’ economics which still bedevils modern social arrangements) – it is on the basis of his monetary economics that a claim may be made for the uniqueness of Rudolf Steiner’s contribution. With the insight that what

²¹ Steiner (1996).

²² Christopher Houghton Budd describes this as follows: In meeting its material needs, humanity creates values over and above its material requirements. This additional value is capital. Capital is used up in the production of further values. The process is self-sufficient, self-generating, perpetual. Houghton Budd (1999) *Prelude in Economics*.

²³ Paul Mackay, monetary economist and founder-director of Triodos Bank, based in Holland, has described this in terms of the need to shift from a horizontal to a vertical balance of payments.

Steiner describes as three kinds of money can be precisely shown in accounting²⁴, a step change was taken in the understanding of his main idea. Thereby micro-level application on the part of entrepreneurs becomes a reality. A macro-level analysis by Christopher Houghton Budd²⁵, while not citing Steiner directly, explores the relevance of the concept of differentiated money, with reference to Keynes's *Tract On Monetary Reform* and the idea of 'double-independence' in central banking.

3.2 Categorical Distinctions

The creation of distinctions need not invoke a dualism. When a distinction is experienced as a polarity (differentiated poles), a higher unity can be found in the communicating element that bridges the two distinct categories.

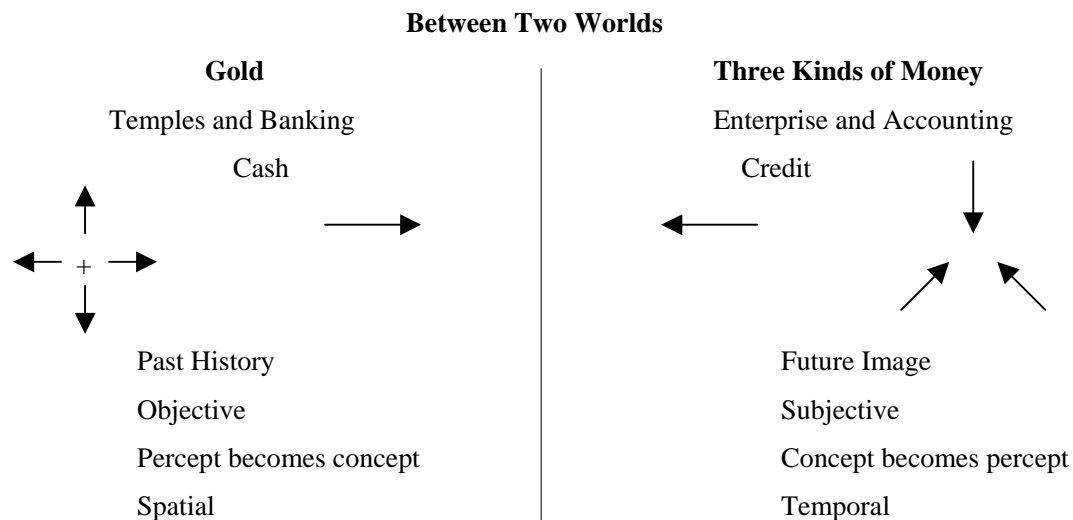
	Distinctions		Higher Order Unifier
	↓		↓
Money as a thing	→ ←	Money as a veil	<i>Monetary Consciousness</i>
Cash	→ ←	Credit	<i>Currency</i>
Income/Expenditure	→ ←	Assets and Liabilities	<i>Closing Entry</i>
Means of Exchange	→ ←	Store of Value	<i>Unit of Account</i>
Activity	→ ←	Resource	<i>Management</i>
Meter	→ ←	State	<i>Current</i>
Finite	→ ←	Infinite	<i>Transitory</i>
Objective	→ ←	Subjective	<i>Thought</i>
Past	→ ←	Future	<i>Present</i>
Perception	→ ←	Conception	<i>Knowledge</i>
Empiricism	→ ←	Idealism	
Percept creates concept	→ ←	Concept creates percept	
Emergent	→ ←	Centrist	
Stream	→ ←	Pool	
Fresh Water	→ ←	Salt Water	

²⁴ Marc Desaulles (2005) *A Human Response to Globalisation*, director of a Swiss pension fund, is credited with this insight.

²⁵ Houghton Budd (2006) *Auditorial Central Banking*.

3.3 Illustrative Imagery

The imagery included here is derived from Christopher Houghton Budd's Auditorial Central Banking²⁶, as is the idea of conceptually decoupling cash and credit.



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²⁶ Houghton Budd (2005).