



Associate!

A MONTHLY DIGEST FROM THE WORLD OF ASSOCIATIVE ECONOMICS

DECEMBER 2011

THEME

Their Word Our Bond

CONTENTS

A Sign of Our Time	3
Observations from the Observer	
Comment	4
Occupy your Destiny	
Archive	5
Young Money	
AE-Exchange	7
News and Views	
Accounting Corner	7
Accounting as Mirrors	
Notices	8

ONE-WORLD ECONOMY

Humanity is now part of a one-world economy. Despite diverse interpretations of this fact ranging from 'alternative' to neo-liberal, the challenge is to reach an understanding of today's economy that all can 'own'.

ASSOCIATIVE ECONOMICS

Non-partisan and based on the idea that economic life is the shared responsibility of all human beings, associative economics aims to play its part in this great task.

RUDOLF STEINER

Associative economics recognises its debt to Rudolf Steiner, whose insights make a valuable contribution to the task of developing a modern humanity-wide economy.

Give Young People Credit

The challenge of 'In Yer Face' finance

Arthur Edwards

The importance of financial literacy for young people today cannot be underestimated. Based on his experience in this area, Arthur Edwards makes clear how he sees this need and how it can be met.

Whether in the form of the euro crisis, the 'occupy' movement, the debt time-bomb or any other aspect of the global financial crisis, finance today is now very much 'in yer face'. These phenomena are simply different sides of one reality, but the solutions touted, conceived on the grand scale though they are, do not get to the core of the problem. It is not a question of the size of the numbers or the 'credentials' of the people involved or the public commitments undertaken. The challenging reality is an *economic* one but the remedy administered is invariably couched in terms of a *political* process. It is not that economics and politics do not meet, but that they are addressed in a way that is incommensurate. The political realm is essentially concerned with how people come together to create rights relationships; the economic realm is made up of transactional behaviour. Each bears on the other but neither can determine the other.

Furthermore, the events of the past few years have written large our collective lack of financial literacy. It makes little sense, therefore, to point the finger at bankers, politicians, corporations or other institutions and individuals, for they represent merely an expression of our cultural consciousness in this realm. Financial literacy premised on the isolated individual making good in his own life, regardless of wider circumstances is surely an anachronism, flawed from concept to practice. Such thinking cannot add up to a functional whole. The whole with which we must be concerned today is the global economy and it is from this starting point that the individual needs to consider his situation.

From Physical to Fiscal to Financial

The locus of money has moved from the physical to the fiscal realm, more technically said, chartalism has taken over from the gold standard as the operating concept among conventional monetary economists. But in a global economy such a state theory of money will eventually require a global state. Why else would the G20 political 'leaders' feel the need to wrestle with one another in negotiations that bind them to certain commitments? A fiscal union (in the case now of the Euro but soon of the world) is the corollary of a fiscal concept of money, but if we are to avoid the, economically unworkable and spiritually undesirable, prospect of a global monetary authority (a.k.a. world state), we need to move beyond a fiscal conception of money to an economic (or financial) one.

An economic conception of money is not one that is tied to a physical good, nor even a legal-statutory institutional framework; it is one in which the production, exchange and consumption of values is facilitated and made visible through the medium that most objectively represents the reality of what, *economically speaking*, is taking place. For this, accounting, when carried out in a complete way, is apt; for what is it, in its essence, but a picture of economic 'actuality'?

Just as life is ever moving on, so too must money (as a proxy for economic activity) be represented dynamically. But like the hare dashing past, as soon as we notice it, it is gone. In order to 'take stock', we must freeze-frame the creature in motion, we must represent in a static image what has just gone past. Even with our eye, we only see the last but one movement, the moment past, as the present eludes us and the future remains to be seen. But while the future is not to be pinned down it can be conditioned, for better or worse, according to the image we have of it. Accounting represents money in these three aspects of time, activity completed (in the trading account), the present state of things (in the balance sheet, although it is already out of date), the future in potential as conditioned by the judgement of the entrepreneur in allocating surpluses with closing entries.

CONTINUED OVERLEAF

CONTINUED FROM OVERLEAF

Rite of Passage

The youth of today, by whom our future is represented, require two things above all:

1) An education through which they will be able to orient themselves in 'financial space', so they can develop the capacity to take hold of their own destinies and become sovereign individuals.

2) To be met by the older generation with the resources that their future activities require. Such activities may only appear now as aspirations, but within them lies the seed of new initiatives.

Society, both collectively and through the individuals that make it up, needs to listen to and recognise the true aspirations of the young. No matter that they first come out backwards; we must listen more deeply, divining even what is seeking to come to expression. For only then will we be willing to relinquish the resources that belong to developing their future capacity as productive adults of tomorrow, resources that presently are 'safely' (!) locked into a sterile misconception of finance represented by the state-banking nexus.

Education of course means self-development in its broadest sense. Here it is given an additional focus in the form of enterprise education grounded in financial literacy. Financial literacy means waking up in one's responsibility as an adult by taking initiative and knowing both that what one does must be needed by others and that one's own activity must constantly be managed by cultivating a capacity for self-belief, self-worth and self-possession.

All of this, when one learns how to look, is evident in finance. Accounting is the tool by which the financial dimension of one's activity is made visible – not only what one has produced and

exchanged (one's trading account), but how through one's relationship with the rest of humanity, these resources have become available (the balance sheet).

Much more, of course, could be said about how young people can initiate themselves into the 'mysteries of bookkeeping', to quote from Rudolf Steiner, who himself taught the subject. Suffice it to say that it is through one's relationship with one's balance sheet that one becomes economically conscious.

When young people, therefore, 'meet' their balance sheets, they enter a relationship that will accompany them from that moment until when, at their death, their will is drawn up and their estate dissolved. This crucial moment needs to be seen and acknowledged as a rite of passage.

The Capital Question

So far it is all motherhood and apple pie you might say. Who would argue against financially literate young adults? There is however another side to this equation: the corollary of education is entitlement. Young people must become entitled to exercise the embryonic capacities that they have developed and this can only happen 'for real' when they are entrusted with the means of production that are at the disposal of humanity.

For we are surely not to educate young people in financial literacy merely in order for them to be dispatched into a world that runs a contradictory practice: using the labour market to threaten young souls to prostitute their lives, telling them a seductive lie through the anachronism of banking consciousness, and through the financial markets hoarding 'monetary' resources to bully anyone 'not with the programme'.

An economy is needed that is borne of a culture that is 'beyond the market' and 'beyond banking'. The behemoth of 'the market' and the leviathan of banking must be displaced by association and bookkeeping. Association means activity that is co-operatively co-ordinated but not collusive. When money is seen, and treated, as bookkeeping, then banking will pass into monetary history.

It can only be meaningful for the young to become financially awake if they can be provided with the resources that their activity demands. Only thereby can they develop independence in their undertakings, the hallmark of inner, spiritual sovereignty.

The 'excess' capital that has wreaked havoc as the 'financial economy' was abstracted from the realm of trade and commerce in which it came to expression. It must now find a way to 'earth' itself in real enterprise. The stabilisation of the financial markets (which is to say the overcoming of the egoism that currently drives them) can only be achieved by capital 'losing itself' in future productivity, not of goods necessarily, but of values born of serving one's fellow human beings by unfolding one's purposes in life. It is only in this way that capital born of yesterday can become fertile tomorrow.

But we should be under no illusion: such productivity can only result from the capitalisation of the initiative and activity of young people. In terms of Rudolf Steiner's basic economic thesis, by the provision of personal credit, instead of allowing today's excess liquidity capital pass into speculative real estate and other markets.

Los Indignados Graduates without a future

Age 18: 'I have less and less belief the longer it goes on.'

Age 24: 'The last time I had a proper job was five years ago.'

Age 22: 'We're all desperate - so many people are after jobs.'

Age 17: 'I don't want to be on benefits for the rest of my life.'

Age 17: 'After rent I've only got £30 to live off for two weeks.'

Age 24: 'There are 32 people after every job.'

Age 24: 'The job-seeking system isn't set up for graduates.'

Age 22: 'To date, I have applied for 836 jobs.'

Remarks by young people interviewed in London recently.
Source: *The Guardian*, 2 November 2011

A Sign of Our Time

Observations from *The Observer*

These brief extracts from Britain's **The Observer** newspaper are telling in two ways. Firstly, although from the same editorial office, the writers' views are not quite joined up. Perhaps this, and a certain diffidence in their style, is the technique whereby they can be frank yet pull their punches and so hold on to their jobs. On the other hand, they do articulate a clear way forward. The challenge is to move from observer to enactor!

As an *Observer* (30 October 2011) editorial put it: "While Matthew insists you cannot serve both God and Mammon, some still try to give it a go." Perhaps that's why the Mayor of London, Boris Johnson, said to the protestors: "In the name of God and Mammon, go!" His mind was on the Olympic Games, of course, but his choice of words, reflecting the typical reactions of many people in authority, provided a revealing "glimpse of a frost in a corner of [society's] soul" and an inability to acknowledge "that social capital and the bonds we have with each other are infinitely more valuable than those that are traded daily."

Of the protestors, it is said, even by a writer as young as Nick Cohen, that they "do not offer rational economics demands, but only a vague and woozy sense of grievance." His colleague, Andrew Rawnsley, reports the same on the part of "establishment opinion", whose "default response ... is glibly to dismiss these protests as a passing spasm which cannot achieve anything because the movement is either wildly unrealistic in its aspirations for a new world economic order or too vague in its demands."

Others refer to the protestors demands as "inchoate", which means just beginning or undeveloped, but is meant as a put down rather than as a recognition of their concerns. Even if the intended word were 'incoherent', it is hardly any less condescending. For 'lacking in logic', 'inconsistent', 'not clear' or 'unintelligible' hardly describes their litany of complaints:

- in the last year the pay of executives has risen on average 49%, but youth apprenticeship schemes have been reduced or dismantled altogether;
- bankers should not be in charge since no-one elected them;
- fury about corporate greed;
- resentment at lack of economic opportunity;
- concern about social inequality;
- alienation from conventional politics.

As Rawnsley remarks: "The protestors strike a resounding chord when they complain that the financial elites are getting rewarded with special treatment while the punishment for their mistakes is meted out to the rest of society... Governments have neither punished those who wrecked the economy nor taken adequate steps to ensure that they will be more accountable and responsible in the future." More critically, "...the young are suffering disproportionately from a crisis not of their making. Youth unemployment in Britain is at record levels: 20% of the under 24s do not have work. In Spain, youth unemployment has surged to a staggering 46%. These protests are an alert to explosive issues of inter-generational unfairness..."

He continues, "Christ had a robust response to moneychangers..." And "imagine what might be achieved if this movement can get really serious and starts taking its protest more directly to the avaricious bankers, corporate larcenists and crony capitalists who are the central source of their discontent with how we live now."

Another colleague, Heather Stewart, is clear what this would entail: "What the protestors ... are rightly identifying is that something has gone badly awry in the relationship between finance and the rest of the economy... Banks should be buried deep in the engine room of the economy, shovelling our savings towards profitable opportunities so that businesses can expand and evolve... [Instead] protecting the status of the City as a world financial centre became a central goal of government policy [and the recommendations of the Vickers commission] fail to tackle the deeper question – the one nagging at the protestors – of what role finance should play in the economy and society."

She ends: "Their demand is a simple one: a banking sector that serves the economy. It doesn't seem too much to ask."

Editorial

With this issue we focus on the growing world crisis concerning young people. People who see little to cheer about in their futures. **The Indignant Ones.**

The scene is set with an impassioned statement by **Arthur Edwards** explaining why he feels so much depends on financial literacy, **associative financial literacy** that is.

Sign of our Time follows with a not untypical montage of commentary from Britain's (left of centre) **Observer** newspaper concerning the encampment at St Paul's Cathedral in London.

For the general problem, and for the **Occupy Wall Street** movement in particular, **Kim Chotzen** provides an interesting reflection. Not meant as a spiritual version of 'on yer bike', but as a considered thought, she asks: What would happen if young people occupied themselves with their destinies, with what they want to do with their lives?

In **Archive**, attention is drawn to Rudolf Steiner's challenging idea of aging money - and of **young money** in particular. Though a red rag to their bull, one wonders if the bond markets (or the human beings in them) might yet take heed of his counsel.

The **AEX pages** this month are given over to a 'call for comments' concerning a project to design **'youth bonds'**, which, by providing capital for young people, could give to the bond markets a new, less-self-centred orientation.

Accounting Corner completes the issue with a reflection on how the **mirroring nature of accounting** can act as an entrepreneur's guide, even to the extent of sharing surpluses/deficits.

Dear Readers:

This is the last issue for 2011. We always ask at this time for your comments so that we can take them into in our year-end review. Please do let us know. Apparently, we all need to be where we should be by the end of 2012, so this may become part of our theme.

COMMENT

Occupy Your Destiny

Reflections on 'Occupy Wall Street'

Kim Chotzen

Rudolf Steiner once said: "The truth is that the economic life of a particular time, and the spiritual life of a particular time (the times are not quite identical), hold the same relation as a nut to its shell; the economic life is invariably the shell which the spiritual life has thrown out. It takes its cast from the spiritual life. Today's abstract economic life is, therefore, the product of an abstract spiritual life. That is why today we are in an age of abstract thinking, of life-remoteness – unreal conjunctures and such things." (15 September 1920)

In other words, what we see in economics is a very precise image of spiritual life. Quite a thing to say given today's financial conundrums and turmoil!

What can this mean in practical terms? Is there anything helpful in this image for the millions who can see that business as usual according to previously accepted economic principles is leading humanity over a cliff? What can be seen as we stand together at the precipice?

To thine own self be true...

Are we not at an edge, poised perhaps to see ourselves in a new way? Not unlike when Christopher Columbus saw that the world was not flat?

To those occupying Wall Street and elsewhere, I give credit for voicing the need to take a new look at financial markets and their effects on the everyday lives of every citizen on the planet. For that is indeed what is needed, a new look.

But be careful: rebellion can be its own trap. If a child rebels against his parents, he is still only using the prevailing standard, i.e. as set by his parents, as the definition of what he is *not*. Nothing new happens until he founds his life on his own, hard-won principles that identify him as a unique individual.

About this time at the start of the last century, Rudolf Steiner also said that human beings who were not fully responsible and conscious within themselves – who did not 'occupy' completely their own being with full awareness – would be manipulated from the outside by other forces.

Want to join the AE Crowd?

With Christmas coming, our thoughts turn to generosity - to friends and relations who would like to have a subscription to *Associate!* to celebrate the New Year with...

cfae.biz/publications/associate

And, for those who do a sterling job creating and maintaining the AE website - associative-economics.com - but who cannot do it out of good will alone, please give thought to our crowdsourcing appeal for £1,000 (US\$1,500).

You can use either 'admin@cfae.biz' at PayPal or cfae.biz/research/donate-for-research/

In order for change in modern conditions truly to take place, individuals will need to fully 'occupy' themselves with their own unique contribution to life. It is sovereign individuals in this sense, and that alone, that will bring about true transformation of the current economic landscape. If this perspective were accepted, the onus for taking responsibility for one's life would be seen to be with individuals, not experts, corporations or governments. Individuals bring about the inalienable rights of the people through respecting one another by overcoming the duality of 'us and them'. The fact that we do not see this is not, perhaps, because it is not true but because we are not seeing the shell of the nut.

Take part in the universal conversation

To occupy oneself fully is to know what one's destiny task is and to work full-time at its unfolding. But of course, one has to eat and be sheltered in the meantime. What are we missing such that we are not all fully engaged in what we are meant to be doing as sovereign individuals? Like the Wizard of Oz asking of Scarecrow, "What is it that men with great wisdom and brains have that you don't have?", what do the corporations have that we don't have? What do they do that we couldn't do and do better, given the right consciousness?

The corporate world understands the language of money – called accounting – and that it is a universal language. Whether the language is used for ill or good is not the fault of the corporation per se but of the human beings within it. In fact, the origin of the share corporation was as an economic instrument whereby many could share the load of producing a service or product of benefit to all humanity.

To take part in the conversation using the universal language of accounting it is essential to *know* accounting – to be financially literate. With this knowledge, one can describe one's own circumstances and visions in such a way that they become understandable not only to oneself but also to the world.

Double entry bookkeeping, a method as old as the Renaissance, is the tool that enables one to see oneself and one's fellows by looking at both sides of every transaction. The world's imbalances are neatly and precisely visible for all to see in accounting if we would but use the tool.

Even if bankers won't and financiers won't, we can! We can start locally, everyone learning to direct their own lives by understanding their personal financial circumstances – where they have taken them, where they will take them.

And then, what a miracle, if we all started to look at each other's financial information, not as critics and judges, but as if one was reading one's neighbor's story for the first time, with interest and compassion. Suddenly, we might realize that the focus was not out there somewhere but was very much right here, attainable and hopeful.

Before humanity catapults itself over the precipice, it might just stop in time, recognizing itself because it turns to see the other side of the equation, the shell of the nut, the effects of its actions. But also the unspoken potential that lies within every human being, and the fact that to see our effects is to review – and therefore be able to change – our motivations.

ARCHIVE Young Money

Rudolf Steiner

In this extract from the twelfth of his lectures on economics, Rudolf Steiner describes what he calls 'the associative method of economic management'.*

Money, like the human being and every other living thing, has a certain value impressed upon it by the fact that it is growing older. The money comes to life and a value is impressed upon it... Suppose that you are an entrepreneur and you ask yourself: "How shall I supply myself with money for my undertaking? Suppose, according to my calculations, my undertaking must be planned for a period of twenty years. Shall I provide myself with old money or with young money?" Then you will say to yourself: "If I take old money, it will have lost its value in five years or in two. Therefore it will not do for me to use old money... I must have young money." Thus, under the influence of long-term undertakings young money receives its peculiar economic value – a value far greater than that of old money. This economic value really exists – and it is there now. On the other hand, suppose I have to embark on an undertaking which involves calculations covering a period of only three years; in that case I should be a bad economist if I used very young money. For the young money, by virtue of its youth, is the most valuable and accordingly the most expensive. Thus, if I require the money for a shorter period, I shall provide myself with cheaper money. Anyone who has to apply his intelligence to money, realises how the age of money plays a part.

Please note, that this is not an invention. It already exists, but in a wild untamed way, which results in mutual disturbance and unhealthy economic conditions. On the other hand, if you tame money, if you really assign to it a certain age, letting young money – as loan money – be more valuable than old, then you will be impressing the money with its true value, the value it derives from its position in the economic process. This value really only inheres in the money qua loan money, for even if money is loan money, yet as purchase money it still retains its former value...

And now remember that free gifts also play a part in the process, wherein they have a very real significance. All that we put into the educational system is a gift – notably when it is a question of a really free cultural life. This, too, is happening already, only people fail to notice it. When you give directly, your intelligence is in the process. As things are now people give, of course, but the gift is absorbed into the general pool of taxation. It vanishes into a vague economic fog and you do not observe what happens. So the thing runs wild. In the other case, conscious intelligence would come into it. Consider, for a moment, what kind of money you will use where it is a question of free gifts. If you are thinking in a true economic sense, then, for free gifts, you will use old money – money that loses its value as soon as possible after the gift is made; provided that the person who enjoys the benefit of the gift has just enough time to make his purchases with it.

At this point, needless to say, there must be some rejuvenating process. The money, in fact, must have a successor. The important thing is, as you will readily perceive, that things must not be allowed to happen arbitrarily through the general chaos which the economic state spreads everywhere. The state brings about a hopeless confusion of values by failing to distinguish loan money, purchase money and gift money, though in reality these three are separated all the time. You will readily perceive that if you do not wish to leave the thing to chance – if you wish to bring reason into it – you simply must interpose the necessary associative bodies at the transition points between purchase money, loan money, gift money and the renewal of money. Take the case of one who has money to lend. You will not let him lend it in a senseless way. You will bring him into connection with his association, which will act as a mediator... The important thing is to bring about sensibly and in accordance with reason the things which happen any way in the economic process, but behind a mask... This is the associative method of economic management.

* *Economics - the world as one economy. New Economy Publications, Canterbury 1996.*

MONTHLY VIGNETTE

Knots and Tangles

Words and music by Kim Chotzen*

Boy:

*Knots and tangles are all I see!
Suffering and chaos reign about me.
Who shall have the life, which they
rightly deserve?
Where is this promised Heaven on earth?
...which I glimpsed before my birth?*

Fairy:

*The answer comes quietly throughout
the years;
I've heard it in my night prayers with
invisible ears.*

Fairy (with Audience):

*The answer comes quietly throughout
the years;
I've heard it in my night prayers with
invisible ears.
And this is what I hear...*

Girl:

*It's in your checkbook,
on your balance sheet!
You'll find it in the numbers
so plain and neat!*

Boy:

*But I can't get it right! It never works out.
Why should I bother cleaning up this mess,
I shout!
Let others work it out.
The experts will bail me out!*

Girl:

*Just keep on working
'til it is correct and precise.
If you can't see it plainly,
then polish the mirror twice;
then polish the mirror thrice,
...And then go seek advice!*

Boy:

*Everyone wants money.
There are so many needs.
How can my heart and the good earth
be safe from human greed?
...And take care of the need?*

Fairy:

*The answer comes quietly throughout
the years;
I've heard it in my night prayers with
invisible ears.*

Fairy (with Audience):

*The answer comes quietly throughout
the years;
I've heard it in my night prayers with
invisible ears.
And this is what I hear...*

Girl:

*Enloak your star in weaving
of figures strong and true.
Show precisely in accounting
just what you intend to do
Then follow it with vigor
as your master plan from God,
For future generations
to see the path you've trod.*

Boy and Girl (in unison):

...They'll see the path we've trod!

*Written as part of working with the monetary allegory of the Wizard of Oz.

EDITORS

Christopher Houghton Budd*
Arthur Edwards*
Stephen Torr

Kim Chotzen* lives in Viroqua, Wisconsin, USA, where she works as a bookkeeping as a way of pursuing her interest in helping young people find their way in life.

Arthur Edwards has a Masters in economics and works in England promoting Youth Financial Literacy.

Christopher Houghton Budd is an economic and monetary historian based in England.

Rudolf Steiner was an Austrian seer who made significant contributions to economics, from which much of associative economics derives.

* Participant in the Economics Conference of the Goetheanum (economics.goetheanum.org)

The AE-Exchange

<http://tech.groups.yahoo.com/group/ae-exchange/>

The AE Bulletin

A free electronic monthly overview of activities and developments in the field of associative economics. Subscribe via cfae.biz/ae_bulletin.

ISSN
2042-2881 (Print)
2042-5821 (Online)

ANNUAL SUBSCRIPTION
Hard-copy UK GBP20 / Non-UK GBP24
Electronic GBP15

PUBLISHER
Centre for Associative Economics Ltd.

VIEWES
expressed herein may not be those of the publisher. Responsibility rests with the authors.

COPYRIGHT
is assumed to belong to contributors; otherwise to the publisher.

USE OF MATERIAL
is permitted and encouraged subject to clear crediting of source and author and the sending of two copies to the publisher.

ADDRESS
PO Box 341, Canterbury CT4 8GA, England

TELEPHONE & FAX
0044 (0) 1227 738207

WEB & EMAIL
www.cfae.biz editors@cfae.biz

DATA PROTECTION
Unless written contrary representation is made, subscriber details are held on computer. They are not provided to third parties.

PAYMENTS
To 'Centre for Associative Economics' or online at www.cfae.biz/publications.

RESEARCH & MSS
As part of our endeavour to promote the contribution of associative economics to current policy-making, material is always being sought from as wide a range of contributors as possible. Please send submissions to the editors at the contact points given above.

AE-EXCHANGE...

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

Youth Bonds: A Call for Comments

A proposal for funding the initiative of young people

Dear reader,

through these pages I would like to solicit comments concerning the idea of youth bonds. One aspect of the idea is to give new, real hope to young people by investing in them. The other is to invite the bond markets to move beyond the self-centredness of their traditional behaviour.

I look forward to hearing from you.

Christopher Houghton Budd

PS: If you require anonymity please say so.

The Youth Bond Idea

Youth Bonds need to be designed to be a partnership, a walking with the young people so funded. They also need to be such that individuals compete against themselves, not against one another; that they are 'stretched' and learn to know themselves and their worth in society through the way they serve their fellow human beings by what they bring to the table. The basic idea is:

- 1) Municipal governments issue the Youth Bonds in order to raise capital to finance the initiative of young people (so that they become entrepreneurs, not dependants).
- 2) The Youth Bonds are bought and held by institutional, governmental and private investors. The bonds are tradable.
- 3) The interest on the bonds is met out of the 'misplaced youth' budget, meaning the funds the municipal government would otherwise spend in order to meet the costs of drug addiction, criminality, re-education and other aspects of misplaced youth. Insofar as these costs fall to its account, the municipal government stands surety for the bondholders in the event of partial or total default.
- 4) The bond market prices the Youth Bonds on the basis of risk and term structures that reflect (a) the use the funds will be put to, and (b) the importance the market gives, and therefore the value it accords, to funding young people in this way.
- 5) The money is used to fund the initiatives of young people on the following basis:
 - i) the money is advanced in the context of a specific financial plan (see *Financial Literacy*) which is used by lender and borrower-entrepreneur alike to navigate the project to fulfilment. The financial plan identifies the amount and term of the capital needed by the borrower-entrepreneur;
 - ii) because the interest on the bond is met out of the 'misplaced youth' budget, there is no interest charged to the borrower-entrepreneurs. They are, however, required to refund the principal at the agreed term, so that other young people may use the money, and so that the bond can be repaid, in the event that it cannot be rolled on or replaced at term. (An added feature, but not necessary, would be to add a repayment supplement, freely contributed by the borrowers, which could be used to create a fund to displace the original bonds.)
- 6) Charging no interest to the young borrower-entrepreneurs is intended to do two things:
 - i) provide a psychological fillip because it expresses confidence in the borrower-entrepreneur;
 - ii) maximise the borrower-entrepreneur's pathway to profitability.
- 7) As well as acting as a navigation instrument, the purpose of the financial plan is to provide collateral based on shared awareness of a project's circumstances (instead of the usual 'blind' risk-reward considerations when lending at a remove).
- 8) The financial plan has three components: Income and Expenditure Accounts, Balance Sheet, and the Cashflow Monitor. All are tracked in terms of budget, actual, variance and explanatory narrative, reviewable at least quarterly, but preferably monthly. This means:
 - i) the project is accounted for on a detailed basis, using standard accounting software;
 - ii) the borrower-entrepreneur is financially literate (see *Financial Literacy*), meaning able to keep accurate, up-to-date accounts and to create and work within a financial plan.

...NEWS AND VIEWS

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

Technical Aspects

Purpose: To provide capital for investment in the initiative and projects of young people, so that they discover themselves and take charge of their own lives.

Type: To be defined.

Features: To be identified.

Nickname: Needs to reflect the social and financial effect of the bond. Any suggestions?

Denomination: Should this be a national, international (e.g. SDRs or USD) or local currency?

Issuer: A municipal rather than national government (because of proximity to the problem).

Dealer: A municipal rather than national, in order to promote solidarity with the community.

Holders: Institutional, Governmental, Private individuals. Local, national or international.

Term: n years. The term would be a function of the proposed use of the funds.

Interest Rate and Yield to Maturity: n . It would be interesting to see how markets priced such a bond. Any guesses?

Risk: Covered by financial literacy on the part of the borrower-entrepreneurs, by 'walking with' on the part of the lender, and by not seeking automatic exit.

$$\begin{aligned} \text{Maximum initial amount: } 50 \times 1,000 &= 50,000 / 20 \times 10,000 = 200,000 \\ 10 \times 20,000 &= 200,000 / 1 \times 50,000 = 50,000 \end{aligned}$$

$$(81 \times 6,175) = 500,000 \text{ USD}$$

Financial Literacy

Whether they have in mind first, second or third sector businesses, governments or charities, for-profits or not-for-profits, serious commentators are increasingly pointing to the need for financial literacy on the part of all economic agents if they are to be able to operate effectively in today's circumstances. In my book, *Finance at the Threshold* (Gower, London, 2011), I argue there is an urgent need to find ways that connect today's excess liquidity to young people especially by, in this case, creating bonds with which to fund their initiative and creativity. In this way, money can be made available for them to undertake tasks that are meaningful for themselves, their communities and socio-economic life generally.

Such funding is and should be kept apolitical. The borrowed capital will appear as a liability on the borrowers' balance sheets; the corresponding asset will be the 'cash' with which they are able to give expression to their intentions. More importantly, as befits entrepreneurs, the income individuals then derive from their activities is treated as a reduction or withdrawal of capital, not as a wage or salary. That is to say, from a taxation point of view they are self-employed or own proprietors. Put another way, their income will derive from the success of their ventures.

A key aspect of the Youth Bonds, therefore, is the financial literacy of the borrowers, the young entrepreneurs. In that sense, the bond's foundation (and collateral) is an awakening to financial literacy on the part of borrowers so that they, in effect, act as their own financiers and auditors.

Financial literacy can be of a narrow, unquestioning kind that merely reiterates existing assumptions and practices, many of which are becoming out-dated by events. Or it can be thorough-going, based on an awareness of the wider history of monetary and financial affairs and, in particular, the role of accounting as an instrument for goal achievement and effective organisational management.

Financial literacy can also be top-down, theoretical and remote, or grounded in the up-to-date accounts, financial planning and cash-flow realities of an existing business. Best of all is a business that one either owns or in some other way has a direct connection with, so that one can effect change by doing, especially by doing with regard to one's own activities.

It is financial literacy in this wider sense that is meant here. Financial literacy of this kind is also a powerful learning path, teaching one to be the author rather than victim of one's circumstances. Indeed, it is often the lack of financial literacy and its corollaries, long-term profitability and effective cash-flow management, that prevent goal achievement.

ACCOUNTING CORNER

Commentary from an associative economic perspective.

Stephen Torr

Accounts as Mirrors

As an accountant it can be quite rewarding to take a box of receipts and from it construct a detailed account of someone's activity. It is interesting to see the differences, and quite often similarities, between the day-to-day running of various enterprises. Managing to find the last transaction to reconcile the bank account, or to draw up a trial balance that actually balances, can instil a sense of achievement.

However, when turning one's attention to one's own accounts a quite different experience occurs. It can in fact be quite daunting to be faced with a reflection of one's own activities.

When preparing the profit and loss account one quickly sees whether the activity one undertook was actually required by whether an adequate income has been received. Further still, one can analyse the expenditure items and recognise if one followed the principles with which the initiative began. For example, for a cafe, how many of one's raw materials were actually sourced from local farmers.

Turning to the balance sheet, one experiences one's current standing in the world. Do others back my initiative by supporting the assets I require by providing loans? Will all the assets for which one retains exclusive right of use have a role to be used up in one's future activity?

This second question then leads to the thought as to whether the cash balance, matched by the surplus profits held in the reserves, is required to fund further activity. Perhaps if it is not needed and one takes into account the whole economy, it would be better placed with another activity to offset someone else's balance sheet which out of economic necessity show a deficit.

It is here that one should focus one's attention. Not only to release any assets being held beyond their economic use, but also to perceive unforeseen potentials within ourselves, which would unfold if only one could consciously articulate them in a spreadsheet for others to recognise and match through capital in the form of loans and bonds.

Associate!

DECEMBER 2011 UK PRICE £2

Centre for Associative Economics PO Box 341 Canterbury CT4 8GA England

AIR MAIL

SIX WAYS TO GET INVOLVED

Subscribe to *Associate!*

Published since May 1980, *Associate!* provides a regular look at modern economic life from an associative point of view. A searchable index is available online via cfae.biz/publications/associate.

Attend Events

Lectures, workshops and seminars are held in the UK and many other parts of the world. (cfae.biz/events)

Take the Diploma

A distance-learning, portfolio-based programme that provides its students with a grounding in associative economics. (cfae.biz/diploma)

Read the Publications

Papers, booklets and books that further understanding of today's economic events. (cfae.biz/publications)

Get the Guarantee Mark

Intended to provide formal support for associative economics, a Quality Guarantee Mark was established in September 1998. It is run in link with the **Colours of Money** seminars. (ae-mark.com)

Befriend Research

Much of the work referred to herein is linked to ongoing research for which support is always needed and gratefully received.

The funds are used to foster serious research into associative economics, meaning research resulting in written documentation that details its findings and/or recommendations and is capable of being published in the normal way.

Donors can simply go to aefriends.com/donate and follow the path that enables them to give any amount at any frequency.

For larger one-off gifts, legacies and the like, anyone interested in contributing should contact:

Associative Economics Research Fund

c/o Hermes Trust
The Old Painswick Inn
Gloucester Street,
Stroud GL5 1QG
England

Tel: 0044 (0)1453 763900
email: hermes.trust@freeuk.com

Hermes is a UK registered charity.

Associate!

I wish to subscribe to *Associate!* and enclose the relevant payment.

Hard-copy UK GBP20 / Non-UK GBP24
Electronic GBP15

Name:

Address:

Email:

Other Info:
