



# Associate!

A MONTHLY DIGEST FROM THE WORLD OF ASSOCIATIVE ECONOMICS

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THEME

## Twosomes in Finance

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#### 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.

## Two Sides, One Coin

'Banking culture' and the twin nature of finance

### A Montage

How often twosomes appear in finance, as if betokening its deeper significance. In 1844, in response to a banking crisis the Bank of England was divided into two departments, issue and banking, with each having its own balance sheet. This suggests that the two functions belong together but need to be firewalled, as we would say today. As if there is a right and a left that one needs not to separate institutionally, but distinguish functionally. Moreover, people are involved. When Britain's Financial Services Authority (FSA) was made independent (in October 1997), it was a case of colleagues who had been across the corridor now being across town. Principal-Agent theory, which addresses the problem of an agent taking advantage of his principal, also reflects this 'twosomeness'. This montage aims to show the actualité of this phenomenon.

In *Sign of Our Time*, the piece on 'New Monetary Economics' notes the importance of 'separating money's medium of exchange function from its medium of account function,' a distinction highlighted by Keynes in his 1923 classic, *A Tract on Monetary Reform*. The point is also made by LETS innovator, Michael Linton, who noted that, while one may be out of a length of timber, one could never be out of inches (or centimetres). Also in *Sign of Our Time*, the question is raised of a modern version of the Glass-Steagall Act, distinguishing between retail and investment banking.(1)

The matter is in the news because it is felt to be linked to the problem of banks manipulating central interest rates, notably the London Interbank Offered Rate (LIBOR). As reported by Miles Costello in *The Guardian* (14 July 2012, p.17), the LIBOR 'is supposed to reflect the interest rate that banks have to pay to borrow from each other.' But so, too, are regulators supposed to act at arm's length. And yet the current US Treasurer and ex Goldman Sachs man, Timothy Geithner, when president in 2008 of the Federal Reserve Bank of New York, 'did not include calculating LIBOR using real rather than estimated borrowing rates – the central criticism and a measure that, had it been in place at the time, would have prevented the manipulation from taking place.' Little wonder that the British Banking Association is not chastened by the current storm about understating ('low balling') borrowing costs.

### Latent Associative Economics

Nor are the hands of Bank of England officials altogether clean. The point is, seen technically, how is a 'central' interest rate supposed to be identified? And in a consciously coordinated (associative) economy, would the central bank be at such a remove from banking generally? Indeed, it is latent associative economy that provides the clue. It does so in two respects, but especially in regard to Rudolf Steiner's upgrading of the concept of *functions* of money to *kinds* of money (2):

"In the current treatises on economics you will find various elegant statements on the nature of money... For instance, it is said: In the first place money must have a universally recognised value. But the question is: Who is to be the recogniser? [Then] it is said ... that money must be small in volume and yet, being rare, in spite of its small volume it must be possible for it to have a high value. For this property makes money especially easy to store up and, if only for this reason, will constitute a fairly strong inducement to the amassing of wealth... The next thing said is this: Money must be divisible at will. But this again can only be brought about by some act of recognition. Something must first be done to make it so. It is, therefore, once more a rather empty statement. Then they say: Money must be easy to preserve. Well, this property of being 'easy to preserve' will be brought home to us in its full significance in the course of today's lecture.

"...we must be clear that money as such receives its value by the free process of circulation. And ... the first thing we have to deal with is ordinary purchase money – the money we use to buy anything which serves us for consumption. But we must also consider what we have called loan money. The question now is: Bearing in mind its connection with the whole economic process, is loan money the same as purchase money? If you are considering purchase money you will have to

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