From Gold to Golden Rule - Citizenised Central Banking

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Abstract:
Citizenised central banking[1] 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 At the same time, humanity's historical reliance on gold will be superseded by such behaviour becoming informed by the golden rule, namely, "over the economic cycle, the Government / Citizens will borrow only to invest and not to fund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]

Today in contrast, 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.

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[1] The term is from Christopher Houghton Budd - used in seminars.
[2] From UK HM Treasury Website
[3] The image is from Capie, F., Goodhart, C. and Schnadt, N. (1994, p.91):
[4] Gormez, Y., Houghton Budd, C., (2003: p. 18):

From Gold to Golden Rule - Outline:

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.

2. Introduction

2.1 Everyman’s Interest

The wealth of literature that the study of central banking has generated in the last 15 years is perhaps an indication that the time has come for it to be recognised as a discipline in itself. The changes in central banks themselves might allow one to suggest that the concern of the central banker is more and more the common concern of humanity: this is reflected both in their culture - towards collegiate decision making, accountability and transparency- and in their operational activity - increasingly divesting themselves of non-core practices and employing a signaling methodology that places a certain reliance on being hands-off. The implication is that their task is to think and share their thoughts, while corrective action must come from others. From such a perspective this paper is written, that a concrete understanding of the essential activity of central banks must increasingly enter everyday experience.

2.2 Democratising Knowledge

In the 21st century, it appears to be an anachronism for the monetary world to be governed by benevolent experts, however expertly they may do it, if it is the expertise itself that need to be shared. The knowledge of what constitutes good economic behaviour - the sense for which the central bank aims to instil – can become common knowledge. It is not economically sufficient that society delegates to central bankers the sole responsibility for monetary matters.

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

How then is Everyman to live up to the challenge of orientating himself in a world which both practitioners and academics have been wont to describe as esoteric? While the talk now is all of transparency, it is not long since the impression was conveyed that this realm was one only for the initiated. Governor of the Federal Reserve, Ben S. Bernanke, refers to a time when: “Central bankers long believed that a certain "mystique" attached to their activities; that making monetary policy was an arcane and esoteric art that should be left solely to the initiates; and that letting the public into the discussion would only usurp the prerogatives of insiders and degrade the effectiveness of policy.” He then goes on to contrast this tradition of secrecy with the recent past:

> …central banks around the world have become noticeably more open and transparent over the past fifteen years or so. Policymaking committees have adopted various mechanisms to enhance their communication with the public, including more informative policy announcements, post-meeting press conferences, expanded testimony before the legislature, the release of the minutes of policy meetings, and the regular publication of reports on monetary policy and the economy.

Yet the case for how to understand the art and science of central banking, for so it is known, is not a cut-and-dried one. Simply publishing minutes, while it may be a sign of greater openness, does not in itself further understanding – information and knowledge are not of the same order.

2.3 The Problem of Money

Much will depend on what one thinks money is, and how one describes it. Scientific study inevitably takes shape around unanswered questions which are fundamentally of a philosophical nature: economics eventually calls for the question of money to be treated. Houghton Budd (1996: p.5) places the question centre-stage in contemporary history:

> Written across the worried face of a modern humanity is the simple, stark question:- What is money? Various schools of thought exist offering several definitions of money, and a variety of experiments have been and continue to be made in the practical sphere. But how in reality can money be more than one thing?

Technical monetary science must be complimented by an artistic appreciation of the part it plays in human affairs, if a living understanding rather than a dry knowledge is to result. On the artistic side one can discover in the origin of the word ‘money’ a warning note (Lat. moneta warning) as if the study of money will inevitably lead one into controversies, snares and inner challenges.[6]

2.4 Working With Polarities

When asked how he would like to be remembered, the late American economist, John Kenneth Galbraith, replied: “…for seeing economic life as a bipolar phenomenon.”[7] The approach taken here is two-fold, the author contends that a proper understanding of money will involve actively seeking a balance between contrasting polarities; here meaning that a purely technical monetary approach must, if it is to be convincing, be embedded in the sociological context in terms of which it is ultimately to be taken up. The divisive distinction between economics and other social sciences is thereby embraced. The phenomenon of polarities, such as the distinction between a technical and a sociological approach, is problematised by the naïve consciousness when seen in terms of divisive contradictions rather than challenging distinctions which only the researcher himself can find the intellectual means to bridge. Economics both describes human activity and by virtue of its explanatory power provokes it. Polarities belong to economic life, just as different perspectives occur between different actors within it, e.g. buyer and seller.

2.5 Metallism and Chartalism

One aim of this paper is to make such polarities explicit and thus to emphasize the need to hold the balance, which requires an active will. Metallism and chartalism[8] offer an example of a division which is treated by Bell and Nell’s

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[6] Thus in a Keat’s Fall of Hyperion: a fragment, the poet confronts the Goddess Moneta, but before he can meet her face to face he is warned in chilling terms of what this will involve.

[7] Quoted in The Times, May 3rd 2006, Peter Klinger

[8] The two primary schools of thought concerning money that understand its nature in terms of cover for commodities of intrinsic value (metallism) and societal claims issued as credits (chartalism).

(2003), 'The State, the Market and the Euro: Chartalism versus Metallism in the Theory of Money.' By contrast, Stephen Zarlenga (2002: p.9) describes three conceptions of the origin of money (where most authors recognize only two): "Three general types of origins have been put forward – a sacred or religious origin, a social or state origin, and a commercial or trading origin. This last theory, being preferred by economists, has received the most promotion." Zarlenga's description appears to raise categorical questions – he contrasts the social origin with the commercial origin. This differs from Steiner's (1996: p.217) view that the social and commercial idea of money are one and the same (having arisen out of the fact that economically speaking society has been developing from commodity-based agricultural to city-centred trading activity). Rather than make one or other an absolute starting point, Steiner describes how in agrarian economies commodity backed money arises, but with the development of mercantile economies tradable debts are monetised. He describes the error of analyzing out polarities without then re-synthesizing them in an appreciation of real phenomena:

> … it is our task to follow conditions with our thinking. The three stages of economic development exist today as a threefoldness in the economy, but this is hidden from us because we use one kind of money for everything. Take the argument between nominalists and metallists. The former believes money is only a token, its value residing not in its substance but in the figure imprinted on it. The metallists take the opposite view. People debate such concepts without considering that metallism expresses a reality in respect of agriculture, and the functioning of the money in the economy, while nominalism corresponds to the reality of industrial and cultural life, economically speaking. And between the two there is their intermingling, of course. It simply does not do to prefer simplistic explanations, when in reality life is such a complicated affair!

The view of money put forward in this paper and described as articulated, is seen when what Steiner describes as 'their intermingling' is made separate and evident. In this respect a third kind of money is indicated, which is neither one nor the other but becomes visible through the other two, an accounting money made visible in bookkeeping. This is an articulated form of money, which has only recently emerged through the appearance of a global economy and is therefore a new phenomenon, intellectually and historically.

2.6 Methodological considerations

A further polarity also deserves a mention here, namely the so-called Methodenstreit,[9] the debate over epistemology, research methodology and the way in which economic inquiry is framed or pursued. Is economics the work of philosophical logic, developed from first principles, or does it consist in observing social laws derived from the empirical study of statistical data? Here again, a divide is to be overcome, a divide that must of necessity arise the moment one begins to think: for analytic thinking cuts the world in two and thereby renders it comprehensible, the task of synthetic thinking is to put it back together in a way that accords with reality. The Hegelian notion is that consciousness and development arises out of difference.[10] The divide itself will of necessity occur, how one overcomes it will depend on whether one locates oneself only on one or other side of it. It may be that this is nothing other than the distinction between the Platonic and Aristotelian approach to knowledge. A version in modern economics might be normative and positive economics. The division of the sciences into those that are theoretical and those that are practical (described by Aristotle) is to be overcome by an economics which has a foot on each side of that divide. The bridging of polarities is an intrinsically human capacity. Steiner (1996: p.52) describes this aspect of economics as follows:

> By ancient usage, as you are probably aware, the sciences are classified as theoretical and practical. Ethics, for instance, is called a practical science, Natural Science a theoretical one. Natural Science deals with that which is; Ethics with that which ought to be. This distinction has been made since ancient time: the Sciences of that which is, the Sciences of that which should be. We mention this here only to help define the concept of Economic Science. For we may well ask ourselves this question: Is Economics a science of what is, as Lujo Brentano, for instance, would assert? Or is it a practical science — a science of what ought to be? That is the question. Now, if we wish to arrive at any knowledge in Economics it is undoubtedly

[9] Specifically this refers to the controversy over the method and epistemological character of economics carried on in the late 1880s and early 1890s between the supporters of the Austrian School of Economics, led by Carl Menger, and the proponents of the (German) Historical School, led by Gustav von Schmoller.
[10] This does not refer to dialectic materialism, which is a caricature of Hegel, nor with the divide-and-rule principle which authors such as Meyer (2005) describe as "contorted reading of some basic insights of the philosopher Hegel" practised as a social philosophy by the Anglo-American world, evident both in the adversarial climate of Western culture and in the description of the world in two camps (communism/capitalism, Islam/ The West etc)

> necessary to make observations. We have to make observations, just as we must observe the readings of the barometer and thermometer to ascertain the state of air and warmth. So far, Economics is a theoretical science. But at this point, nothing has yet been done. We only achieve something when we are really able to act under the influence of this theoretical knowledge…When it comes to action, we must start from quite a different angle. Then only does it become practical. We must answer, therefore: The science of Economics is both theoretical and practical. The point will be how to bring the practical and the theoretical together.

2.7 The Central Banking Function

Central banking is ordinarily thought of only in the context of its institutional practice, it is argued here that the institution is itself a mere vehicle for the essential activity which exists separately from the central bank, but for which the central bank provides an institutional locus and a name. Intellectually one can differentiate the central banking function from the institution. The function is here understood in terms of providing a focus through which the economy can reach an awareness of itself, in its systemic nature, through a closer appreciation of the relation of price stability to financial stability. The main theme of this paper is directed towards the idea that by more fully elaborating the intrinsic central banking function, its inherent purpose is revealed and then enhanced by the activity of citizens who take on the monetary responsibility which formerly government officialdom assumed alone. It is enhanced because the awareness grows that what previously central bankers did on behalf of the whole community, setting the stage for overall economic and financial health, its citizens begin themselves to undertake.

2.8 Auditorial Versus Marketised / Statist Central Banking

Houghton Budd (1989) distinguishes between the intrinsic economic function of a central bank and the function that it adopts when it becomes a thing of the state:

> The phenomenon of central banking cannot be distinguished from the general development of a single world-wide economy and the need for such an economy to have focal points. But are central banks merely focal points, concentrations in the world economy, or are they part of a centrist tendency, to be used to control the economy from the centre? There is a difference. Something can be central in either a geo-centric or a helio-centric way. The hub of a wheel is geo-centric in that it determines the world it is centre of. Certain camera shutter mechanisms are helio-centric in that tangents at the periphery determine a space within them through which the light passes. A geo-centric phenomenon is one which is controlled at the centre and in which the centre is a point of emission. A helio-centric phenomenon is one in which the centre is the focal point, to which all things lead, but from which they do not emanate. It is vital to ask whether the development of a world wide economy calls for geo-centric or helio-centric institutions, not least within the world's monetary systems. As one might expect, today's central banks are for the most part geo-centric. They are not merely barometers or expressions of financial life, but are conceived and used as determinants of it. Things could hardly be otherwise, given the huge involvement of the state in the economy in recent decades. State-controlled central banks cannot but be geo-centric because they are intended to create particular economic conditions, not merely to reflect those that obtain "naturally". To expect central banks to be helio-centric is to question the state's role in the economy.
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> …there is a baby in the bathwater of modern central banking, namely that co-ordinating, focal points are necessary and inevitable in the economy. To these the results of economic activity are brought and from them insights can be expected. The bathwater is the central banks issuance of state directives, instead of freely offered insights, and their being sole issuers of money …
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> …. In this respect the BIS (Bank of International Settlements) is indicative of what can happen when inherent economic laws call the tune rather than the dictates of governments. But the BIS offers an example of something even more vital. It has no real powers to determine events other than those of professional and 'purely' functional banking (its requirement for extremely high liquidity, for example) and, most importantly, its research pronouncements. What the BIS says is listened to and often referred to because its Annual Reports embody the considered experience of practical life in the rarefied regions of global monetary administration. Significantly, the findings of BIS do not arise from any transient political

> doctrine, or bias (it includes Russia in its membership), but from laws belonging to economic life. By its very existence BIS comes close to asserting that exchequers shall not usurp the proper functioning of the economy.

While the landscape has substantially changed since 1989, Goodhart (2004) provides an interesting aside on the ability of central bankers to operate independently of Ministries of Finance, which lends weight to Houghton Budd's supposition that central banks are able to produce beneficent effects, without state direction (but nevertheless within an accountable context):

> The period from 1974 until the end of the 1990s when the Basel Committee on Banking Supervision was a private informal enclave of central bankers, establishing soft law for the international financial architecture, was constitutionally extraordinary, though generally beneficent. It deserves a full, detailed historical treatment. Be that as it may, the separation of supervision from central banks, and the enhanced involvement of Ministries of Finance, (together with the greater role of the IMF and World Bank in this field), is now making the procedures for reforming the international financial architecture, both globally and in the European Union, more messy and complicated, but somewhat more `democratic', than perhaps they used to be.

In Auditorial Central Banking (2005:29), Houghton Budd uses the term double-independence to describe more fully how a central bank should conceive itself:

> 'Auditorial central banking' refers to a complex range of issues, which as a whole do not lend themselves to simplified definition. One such issue is the concept of 'double independence', referring to the need for independence from both government and financial institutions if the central bank's purposes and operations are to have a public good quality in keeping with the fact that money is a common concern. Double independence can be traced at least as far back as Henry Thornton, probably earlier.

2.9 Communication

How is all this to be achieved? The title of this essay, 'From Gold To Golden Rule', suggests that where previously gold provided a foundation for monetary affairs, a new foundation must now be established, no longer in a physical substance but in the inherent logic of a regulatory process; 'Citizenised Central Banking' implies that such activity can be the task of all citizens; it does not suggest some new scheme or policy, but a direction in evolution which the author attempts to describe. Regulatory process does not here mean compliance with an external authority, as normally defined, but the inherent regulation that the human being can undertake to maintain a healthy mediation between poles. The rhythm of the heart can find its own intrinsic relationship between the breath and the pulse or it can be given one from outside by a pacemaker. The entrepreneur can be made to comply with external criteria in how he accounts or he can make his closing entry in the light of what he observes in the concrete circumstance of the profit and loss account on one side, and the balance sheet on the other.[11]

While the seemingly abstruse nature monetary science may appear to provide too high a barrier for the participation of the everyday person, it should be remembered that what today are matter-of-fact practices such as writing (wherein the original learning development is largely forgotten) were once intellectual achievements at the frontiers of knowledge, won for humanity through generations of struggle. A child that learns to write in a matter of years, where previously a highly educated clerk took great pains, can learn this skill not thanks to his aptitude only but by virtue of the way in which such conquests are incorporated into human make-up over generations of practice. The need for civic communication is normally expressed in the context of garnering political support and maintaining a democratic mandate, as here by Blinder and Wyplosz (2004): "(because) the virtues of central bank independence and price stability may not be self-evident to the body politic, the central bank must constantly make the case that its job matters. It must address the concerns of ordinary citizens."[12] In the author's view, there is another sense in which the communication is needed, which is brought about by a fuller appreciation of economic history and the role played in it by the individual who understands the essential nature of financial literacy to be the outer manifestation of an inner practice.

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[11] This idea of regulation through accounting is made explicit in Desaules (2004).
[12] Quoted from Guma 2005

3. Historical Perspective

3.1 The Individual in Society

This paper adopts a perspective describing humanity's evolutionary journey, made visible in its relationship to money. To identify oneself on such a journey one must look forward and back. The sociological approach that was earlier identified as a necessary corollary of the technical one is here meant. The trends of development in central banking over the past 15 years already alluded to here, and by many other authors, must be seen in the context of a greater sociological story, in which it is shown that central banking plays an ever evolving role. While there is no space here to provide the whole narrative, the essential nature of this greater development is described as individuation, whereby every human being comes to a clearer understanding of his individual nature. Margaret Thatcher's famous dictum that 'there is no such thing as society only individuals'[13] is an example of humanity at a point on this journey, where self-awareness becomes stronger than inbred sense of community. This process is accompanied both by increased social consciousness and increased social alienation. Throughout history humanity experiences an ever closer relationship to the material plane (as evidenced in technological development) – yet in the 20th / 21st century the recognition of the existence of weightless phenomena (for example, an interest rate or an inspiring work of art) has challenged humanity to go beyond the doctrine that material causes are supervenient on mental or spiritual ones. Moreover, age-old institutions are increasingly felt to be anachronistic and to warrant replacement by the consciousness of responsible individuals. Such developments are mirrored with precision in humanity's relationship to money; so what at first appears to be merely a technical question – let us call it the appropriate management of money - must be complemented by a fuller understanding of its role in human development, both past and future. In this respect one can legitimately refer to the science and art of central banking. The sceptre is the emblem of a now anachronistic hieratic authority; the image of the descent of the sceptre (from priest to king to banker to citizen) captures the idea that what previously was done on behalf of the common man he must now do himself; no longer does any higher principle hold sway in the visible form of an active monarch. The realization that this constitutes an emancipation from an old situation and that the individual can now stand up and determine his course, must be balanced with the knowledge that one must learn how to do so, ignorance of this responsibility inevitably brings danger to oneself and to others.

3.2 Self-governance and Economic Initiative

The governance here meant is not leadership in the realm of parliamentary legal processes, but spiritual self-governance made evident in economic initiative: one needs to make this conscious such that it becomes consonant within the global economic process – which is to say that a healthy coherent global economy is to arise from the concerted voluntary initiatives of individuals (rather than through the direction and policing of a centrist state) whereby the everyday notion of behavioural freedom is counterbalanced with self-discipline. The idea that money itself needs to be disciplined is described by Steiner (1996; lecture 12)

> …we ought not to let money merely flow into circulation and give it freedom to do what it likes. For we thereby do something very peculiar in the economic life. If we require animals for some kind of labour, the first thing we do is to tame them. Think how long a riding-horse has to be tamed before it can be used. Think what would happen if we did not tame our animals, but used them wild, taking no pains to tame them. But we let money circulate quite wildly in the economic process.

This is the challenge, which, if left unmet will leave humanity at sea between the Scylla and Charybdis of a volatile market and an imperious state. The process of self-education in economic initiative has two aspects; firstly that one is responsible for one's own economic activity (i.e. sovereign in it) and secondly that through accounting one becomes increasingly conscious in it. Of course the first of these is not so far from the popular notion that it is better to be self-made, financially independent, economically active in one's own right - rather than an employee or a person who lives only from his claims on the work of others. What is missing in the popular conception is the idea that expertise in the form of financial consciousness is applied directly by the active person. Complete entrepreneurial independence means that without the corrective of state authored regulation (but within the context of the law) there is no higher level of

[13] "I think we've been through a period where too many people have been given to understand that if they have a problem, it's the government's job to cope with it. 'I have a problem, I'll get a grant.' 'I'm homeless, the government must house me.' They're casting their problem on society. And, you know, there is no such thing as society. There are individual men and women, and there are families. And no government can do anything except through people, and people must look to themselves first" - Prime minister Margaret Thatcher, talking to Women's Own magazine, October 31 1987

managerial guidance to make good the failing of the individual. There is no divide here between the one who thinks and the one who does. Activity and consciousness thereof are encapsulated in the responsible person in a way that dispenses with the two-worlds culture described by Hayek (1944, 37) when he says: "…those who have to apply economic theory are laymen, not really trained as economists. [Economists] can at most be called in as advisors while the actual decisions must be left to the statesman and the general public…" The notion that the individual actor can himself become conscious of the economic consequences of his deeds and act in concert with his fellow entrepreneurs to bring a situation into being that otherwise must be the task of the governmental agent is, to say the least, not yet established in contemporary thought – indeed it challenges many of the statist structures whose existence is built on the need to make good the blindness of the market.

3.3 The Origin of Financial Responsibility

Without such an idea of the human being evolving to take on new roles and new responsibility, one is left with the supposition that things are ever as they have been – yet such a stance is not true to history, for the delineation has until the recent past always been clearly prescribed between those who are responsible in a certain realm and those on behalf of whom they undertake such activity. Klockenbring (1985: p.4) states it thus: "There have always been those charged with responsibility for the proper and effective use of money. In former times this was a function of religious leaders; today it is the province of bankers." He goes on to describe in greater detail what this previously meant:

> Naturally, as the ones responsible for administering the sacrifices, the priests could not go hunting, rear sheep or cultivate the land to the same extent as the rest of their people. Their task was to foster an awareness of higher realities and to render them accessible to the ordinary man. Thus arose the first division of labour, and, with it, the first mutual agreement, the first "contract"in man's social life. Sacrificial animals – mostly cattle, but also pigeons and sheep – would be brought to the priests. Some would be offered up to the spiritual world immediately by means of sacrificial fire; the rest would go to the maintenance of the temple staff (to use modern expressions) consisting not only of priests but of servants employed within the often extensive precincts for consecration and study. Of the animals kept back, not all would be eaten – some were surplus to requirements. What were the priests to do with them? It is through this question that one is led to the fact that social and economic life in olden times was directed and ordered from the temples ...The priests were the first men who, through their wider horizon, could survey tribes and establish links between them. People came together in vast numbers at the great festivals, such as the Olympic Games and the cultic festivals at Delphi, Athens, Eleusis and elsewhere. These huge religious festivals were focal points within a wide network drawing people to one place and affording opportunities to trade. This trade was regulated by the temples, because within their precincts an awareness of the people's various needs and how they could be met was developed. This more comprehensive and higher consciousness cultivated in the temples gradually gave rise to the ordering of social life. The trade relationship that existed between men and gods became a relationship between men and men.

Suffice it to say that the anachronistic survival of such delineations into the present often takes on a grotesque character, especially where it assumes a prescriptive form – as for example in the case of the caste system. Yet from historical sociology it is clear that monetary responsibility was embedded in an institutional context of a hieratic nature which is more fully described by Laum (1924). This accounts also for the proximity of treasuries to temples and the early development of literacy and financial record keeping in such contexts. The analogy of temple to central bank is not inapt, as Gardiner (2006) describes: "Fungible debts of merchants were used as money by everybody, including governments, long before central banks were invented, but Babylonian temples' debts (shubati) were a popular form of money and it would be legitimate to regard those temples as central banks." Wray (2000: p.9) also describes this connection and makes explicit that at the heart of such procedures, the activity of bookkeeping would be found:

> Apparently temples and palaces acted as neutral witnesses, recorders, and enforcers of debts and transactions between third parties. Indeed, it is often surmised that writing was invented in the temples to keep accounting records of debts and credits, inscribed on clay tablets held in the temples for safe-keeping.

A later example of this phenomenon is described by Zarlenga (2002: 152) in relation to the monetary clearing mechanism of mediaeval fairs such as that at Champagne which was connected with the Knights Templar Organisation. Houghton Budd, (2005a: p.66-7) in Rare Albion, his allegorical description of monetary affairs, presents us with a character who finds himself facing the challenge of correct discrimination before being entrusted with the heightened financial responsibility that the role of central bank governor implies.

> Victor was well aware that on their long, long journey human beings had reached the moment where they had to become co-responsible with the gods for the right conduct of the world. Until that moment, the old cover of money - between goods and creativity, agriculture and religious cult, wheat and gold - had been 'managed' on behalf of the gods by priests, then kings, then bankers. Now this responsibility had been vouchsafed to individual human beings.

3.4 The Birth of Economic Culture

The idea that only the governor of the central bank need feel responsible for monetary policy, financial stability and overall economic health is surely an anachronism. Yet to the extent that one supposes blindness on the part of market participants and corrective wisdom freely offered from the central bank, does such thinking not become entrenched?
Since approximately the 15th century, the culture of humanity has been becoming increasingly economic. This social development is well documented in the work of Tawney and Weber. In popular sentiment, economics is felt to be the ground on which human activity rests: the brash expression 'it's the economy stupid' underlines the idea that this is where the issues are. The guiding consciousness of human development is today seen as an economic consciousness, linked to the West. Ernest Gellner' s (1992) 'Plough, Sword, and Book : The Structure of Human History' describes a three stage evolution of human development. Rudolf Steiner (1996b: p.11 /19) also describes human sociological development as a threefold process, beginning with the ancient theocratic order based on agricultural fiefdom, followed in the Greco-Roman era by the birth of the legal-political state, and from the 15th century onwards seen in the emergence of a global economy emancipating itself and becoming separate from the other two spheres.

> … to these two streams that I have described, there comes more and more from the beginning of the fifteenth and sixteenth century onwards, but most clearly in the 19th century, a third stream. The more culture moves towards the West, the more obviously this third stream emerges. It is added to what was originally theocratic, to what was adapted to land, to agriculture; to this is added in the middle regions the juridical, which is adapted to trade craft and labour. And in the West there is now added ever more and more what is later comprised under the term industrial, with all the mechanisation that enters it.

The significance of what Rudolf Steiner is here describing is not only sociological, but as hinted earlier and more fully developed later, two significant facts stand out for monetary historians. The first is the idea that the nature of money changes in each stage, according to whether one looks at local, commodity based agricultural-money, a national (chartalist) debt-based trading-money, or a global industrial bookkeeping-money - three spheres, in which the older order is still evident in the newer, that can now be made distinct. A second idea is indicated when he says 'all the mechanisation that enters it'. Although one immediately thinks of the physical industrial revolution, the mechanization is not essentially of a physical nature itself but of an ideal one[14] - it is a mechanized apparatus of thought. In the third stage that Steiner describes (elsewhere he refers to the time since the Napoleonic Wars) financial processes begin to be separated from concrete individual consciousness and enter the supra-individual realm of the abstract from where they work mechanistically back into economic life, if left unmodified by new thinking.

4. Gold, Global Economy, Financial Markets

Within the context of this evolutionary process, three recent (i.e. 20th century) developments stand out, namely: the passing of gold as a monetary phenomenon, the coming into being of a global economy, and the appearance of the financial markets.

4.1 Gold

To describe the role of gold in trade, culture and monetary history would be a life's work. With the end of the gold standard and the subsequent breakdown of the Bretton Woods agreements, the historical evidence indicates that gold has been surpassed as a monetary base. The necessity of going beyond gold is eloquently stated by Stein (1979): "Gold, at one time the means of effecting a balance between the separate national economic systems, loses its utility in an age of

[14] The term virtual machine is, for example, used by software programmers

world economy. All attempts to elaborate ideas based on the old standards of valuation – which were once quite right and proper – now become futile. Other methods of valuation are needed now." Yet there are problems in this respect. While the empirical ground has been covered, thinking appears not to describe the new situation sufficiently. How else is one to explain the vast gold-reserves still kept in the banking system? Gold provided humanity with a monetary anchor; physical, universal and intrinsically valuable. It could act as a medium of exchange, a store of value and a unit of account – no questions asked. As an image alone gold offered a unifying element. Without gold humanity must transcend physicalism to see the relationships implied behind the money. There are those who cannot see anything but illusion in a money which is not gold (or backed by a physical good). Others think that such a money must be the property of the state, while yet others see gold as the protection of the capitalist from the state.

A well known example of the latter phenomenon is to be found in Alan Greenspan's article 'Gold and Economic Freedom' which appeared in Ayn Rand's book Capitalism: The Unknown Ideal. The opening paragraph reads: "An almost hysterical antagonism toward the gold standard is one issue which unites statists of all persuasions. They seem to sense – perhaps more clearly and subtly than many consistent defenders of laissez-faire – that gold and economic freedom are inseparable, that the gold standard is an instrument of laissez-faire and that each implies and requires the other." Over 30 years later, speaking to the US Congress in 1999[15], he was still representing the role of gold in superlative terms when he said: "Gold still represents the ultimate form of payment in the world. Fiat money, in extremis, is accepted by nobody. Gold is always accepted."[16] Before a question and answer session of the House Banking Committee in 2005, he gave a interesting response to a question from Congressman Ron Paul concerning the demise of paper money:

> … you have to ask yourself: Why do we hold gold? And the answer is essentially, implicitly, the one that you've raised -- namely that, over the generations, when fiat monies arose and, indeed, created the type of problems -- which I think you correctly identify -- of the 1970s, although the implication that it was some scheme or conspiracy gives it a much more conscious focus than actually, as I recall, it was occurring. It was more inadvertence that created the basic problems. But as I've testified here before to a similar question, central bankers began to realize in the late 1970s how deleterious a factor the inflation was. And, indeed, since the late '70s, central bankers generally have behaved as though we were on the gold standard. And, indeed, the extent of liquidity contraction that has occurred as a consequence of the various different efforts on the part of monetary authorities is a clear indication that we recognize that excessive creation of liquidity creates inflation which, in turn, undermines economic growth. So that the question is: Would there be any advantage, at this particular stage, in going back to the gold standard? And the answer is: I don't think so, because we're acting as though we were there.

Reading into Greenspan's words 'we are acting as though we are there' one can see the implication that, free from the outer constraint that a gold standard imposes, one can achieve the same effect from an inner discipline 'acting as though'. Interestingly, this in itself reinforces the view that the gold standard worked, not in the way that David Hume supposed (as a mechanical effect of specie flow) but through the inflationary discipline it brought to bear on governments.[17] In the context of so-called global financial architecture, what appears to be missing is an agreement as to the nature of money, for which gold stood proxy by creating an overarching context or monetary image. If one could but find what gold represented and convey it in terms of a publicly evident monetary science then the grounds would be present for saying that humanity is beyond gold, i.e. no longer standing on gold as physical ground (gold as anchor) but standing on what it represented, now supported from above by understanding (scientific money as skyhook[18]) and free from its physical nature. An inherent understanding of the nature of money takes humanity beyond gold into economic consciousness, made visible in accounting.

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[15] In testimony to the US House Banking Committee, 1999

[16] Quoted by Gary North in Lewrockwell.com

[17] For a full discussion see Eichengreen and Flandreau 1997 The Gold Standard in Theory and History. A further observation worth mentioning is that the gold standard provided a means by which monetary policy could be formulated somewhat independently of political considerations – see Capie (1994: p.238) for a description of the gold standard operating automatically and thereby allowing for a degree of central bank independence. An interesting (though perhaps now dated) discussion of the polarity of wheat and gold is to be found in Houghton Budd (1996).

[18] This term, introduced by Christopher Houghton Budd, comes from the building trade (the invisible means by which a building is supposed to be suspended when its actual means of support is unclear or uncertain.

4.2 Global Economy

The question of humanity's relationship to gold, arises in historical terms at the moment when the phenomenon of global economy becomes evident. These two facts are certainly related. That the dynamic of one global economy is of a different nature to that of national economies is not yet seen as an agreed fact[19]: moreover to the extent that the central bank is understood to be a political rather than an economic thing, its policy will inevitably be conducted at the behest of a political logic rather than an economic one – reinforcing the notion that we live in a world of many national economies, whereas since the beginning of the 20th century at least, we have been faced by the emergence of one economy, global in nature. Where previously national economies would be buffered by other national economies in a corrective process, there is no external corrective in a single closed global economy. What was previously achieved by balance of payments must now be achieved in another fashion. The global economy is closed and must therefore be guided by an understanding of its inherent dynamic (i.e. the economic process), made visible in accounting by means of a differentiated concept of money. The distinct nature of global as opposed to national economic life is described in 1922 by Steiner (1996: lecture 12)

> You see, as things are today, the function of money has constantly had to be corrected. Take the case, for example, of a national economy bordering on other national economies. By letting money function in this wild unguided way, without bringing any intelligence into the process, a national economy may easily find itself in a disastrous position with regard to the price of some piece of goods, or something else that is required. So long as the national economy is one among others (and no repressive measures are adopted) the people will simply import the article in question. Their imports will be increased. Things are constantly being corrected in this way. For world-economy, on the other hand, no such correction is possible. We cannot import things from the Moon, If we could import from, or export to, the Moon and Venus and the rest, world-economy would also be like a mere national economy. This is precisely the great question: What becomes of our science of national economy — that is, Political Economy — through the fact that the world is now a single closed economic domain?

4.3 Financial Markets and Financialism

The situation in which humanity now finds itself, being in one economy, is gradually being charted in a sociological manner which recognises the new waters being entered.[20] The implications for monetary policy in a global era, however, receive far less attention – the language generally remains focused on national situations. In the realm of finance, however, the phenomena themselves vitally provoke an awareness of the distinct global nature of economic life. The process of financial liberalisation is extensively set out in Houghton Budd (2005: p.58-70). The operating principle of today's economic life is often referred to by the term financialism, meaning that increasingly it is finance that is the motive for economic undertakings, rather than the means of supporting them – a reversed situation which makes the day-to-day running of business subject to an abstract self-directed logic. The expansion of financial markets, consequent on the liberalisation and globalisation of finance has taken place in a realm that is increasingly free of any restraint (physical, geographical, regulatory, legal). Capital is no longer required to be set in harness to moral values or even to concrete business undertakings – unconstrained, it acts for its own purposes. This is not meant as a moral statement, merely a phenomenological observation.

A further widely observed aspect of this phenomenon is that there is no one is at the controls in financial markets. While some lament this state of affairs, there are others who champion it, believing, as they do, that nothing should stand between the future and the market's will.[21] Presumably that would also include central banks, whose role would then be as mere agents of the market. This discussion is taken up later in the context of Blinder's Quiet Revolution. Central banks seen as agents of the state, on the other hand, are increasingly unable to face markets down,[22] the level of their reserves alone, as compared to speculative funds, provides an indication that they have little weight to throw around.[23]

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[19] in everyday language reference to the national economy is commonplace, even though in the 19th century the name of the discipline was purposefully changed (by Alfred Marshal in 1879) from political economy to economics.

[20] As books such as Naisbitt's Global Paradox and Friedman's The World Is Flat: A Brief History of the Twenty-first Century bear witness.

[21] Compare the analysis of Greider (1997) who compares the effect of the financial markets to a wrecking ball with no one at the wheel, with Thomas Friedman who thinks that we should quit whining because ''there is no one at the end of the phone' ('Quit Whining! Globalisation isn't a Choice.NYT, September 1997)

[22] Most famously what has become known as Black Wednesday when George Soros and other speculators faced down Nigel Lawson and the Bank of England.

[23] At time of writing an announcement of a planned $6bn hedge-fund has just been made (The Times: June 5, 2006).

Such a situation appears to undermine the sovereignty of the central banks, if fundamentally the tune that they must dance to is not of their own making. An interesting question is then posed if one asks where the source of monetary authority lies – with the state, the central bank or the financial market?

The life and work of John Maynard Keynes can be understood in the context of the questions of how to create a transition from a world of national economies (mediating their balances of payments through gold and wherein capital is constrained) to a global economy no longer operating on gold (wherein capital is not constrained). He saw that a transition was needed and his approach was both intellectual (Tract on Monetary Reform, Treatise on Money) and institutional (The International Clearing Union – in which the principle of joint responsibility for equilibrium is embodied (Harrod 1972: p.645)). Yet today this is no more than a footnote in history - it is doubtful whether an institutional solution of the kind that Keynes envisaged can be arrived at – the political will for it is not present, nor was it in 1944 when Keynes's proposal was displaced by that of White's. The solution therefore must be of an inherently economic nature rather than of a political nature.

5. Sovereignty, Authority and Independence

5.1 The meaning of words

Money, Inflation and the Constitutional Position of the Central Bank (Friedman, Goodhart, and Wood - 2002) provides an interesting overview of how to understand the modern context of the central bank. In it Wood (p.35) examines Friedman's 1968 discussion of independence:

> There is, he suggested, a 'trivial meaning' of the word 'independence' – when, within an agency of government, monetary policy is entrusted to some separate organisation which is subject to the head of that agency. Friedman then goes on to suggest 'a more basic meaning', which is that the central bank should be 'an independent branch of government, co-ordinate with the legislative, executive and judicial branches'.

The non-trivial meaning of such words as independence, authority and sovereignty merits further examination in a specifically financial context. If for example one considers the term monetary authority, its context is usually presumed to be the state, or in a previous era a kingly or religious institution. Following the line of argument earlier introduced and envisaged as the principle of the descent of the sceptre (from priest-king to citizen), the special role of monarchs and all hieratic institutions is to some extent made anachronistic by the individual who takes on the task that before could only be done by one who was so anointed. To issue money (i.e. to be its author) would be an example of such a deed, whence we have the notion of monetary authority.

Byzantium was heir to the Roman imperium, monetary as well as military. Zarlenga (2002: chapter 5 and 6), for example, argues that the fall of Byzantium represents the passing of the Caesar's money system, which through the authority of the Basileus ensured the repression or licensing of other moneys. According to Del Mar (in Zarlenga) the Merovingian Franks had received permission to mint gold coinage using Byzantine markings. Over the Centuries they had removed the Byzantine features on the coinage. Charlemagne had continued this coinage …. Del Mar concluded from this that with The Lost Treaty of Seltz, Charlemagne recognised the religious supremacy of the Basileus. Such sensitivity to hierarchichal authority does not fit with the modern notion of human being acting as his own authority – indeed it is an exercise in consciousness to understand how men of the past thought, felt and acted. If this seems absurdly anachronistic today, one would do well to remember that the pound sterling carries an image of the monarch on every note and coin and that this currency (livres, sols, deniers) extends back through the Templars and Charlemage to the Roman system found in the code of Theodosius 418 AD (Del Mar 1967: 116/7). Inevitably the modern central bank finds itself implicated in such considerations, even in apparently trivial matters such as the images that are used on currency. Behind the question of authority is a two-fold phenomenon. The example of a monarch's authority shows that to be authoritative a monarch must first be convinced of his own authority, even though that will achieve nothing.[24] The true authority comes through the recogniton of the monarch by others, whether at the behest of a religious or folk tradition or on whatever other grounds.[25]

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[24] Unless this authority is to be forcefully imposed on others as of course it traditionally has been.

[25] This is a truly economic concept (as will be discussed later in the context of accounting), in economic terms the value of what one does is given by others. Although one can post one's own prices (high or low) no one can force the sale - indeed the situation in which the sale is forced comes about only through a legal context (exclusive right to provide a service or exploit a resource), a matter in which the state is complicit.

5.2 The Role of the State

The role of the state as monetary authority (after Keynes) is discussed by Wray (2000: p.6 / 9):

> Keynes, following the Chartalists, reversed things and emphasized the role played by the state in first establishing a money of account – or what Ingham (2000) has called "value in the abstract". Keynes argued "Chartalism begins when the State designates the objective standard which shall correspond to the money-of-account" (Keynes 1930, p. 11) The "right" to designate the money of account "is claimed by all modern states and has been so claimed for some four thousand years at least." (Keynes 1930, p. 4) While Keynes did not go so far as to claim that money originated as a state-designated unit of account, he did emphasize that for "at least" the past four thousand years, the state has claimed "the right to determine and declare what thing [money] corresponds to the name [unit of account], and to vary its declaration from time to time". (Ibid, p. 4)

While a state provides the normal context for money to be issued (for implicitly citizens recognize its authority and right) it cannot be unilaterally imposed independently of such recognition. The identification of chartalism with the state theory of money would therefore be an error. There are other contexts in which such recognition may occur. Virtual monies such as loyalty points and air miles, extensively described in Bernard Lietaer (2002), provide an example of how recognition by users constitutes the 'moneyness' of money. In such cases, the money is of course theoretically backed by the ability of the issuer to redeem the tokens with goods and services.

5.3 Currency areas

To disentangle the identification of money with the state introduces the debate over currency areas. These can range in theory from one covering the whole world to as many as one can conceive being issued by individuals. At one end of the spectrum a world monetary authority is already in prospect.[26] It is unlikely that such a phenomenon as a single global currency issued by a world central bank would occur in a politics-free context. The necessity to be of one political mind in order to introduce such a construct would throw into question the diversity that the manifold nature of political states implies. Kurke (1999, p.13) describes some of the background story through which the establishment of a currency was linked to internal and external civic sovereignty: "For every Greek *polis* that issued its own coin asserted its autonomy and independence from every other Greek city, while coinage also functions as one institution among many through which the city constituted itself as the final instance against the claims of an internal elite." This occurred still during the time before the emancipation of the economic sphere (described by Steiner), when political and economic life was bound together. When, in a global economy, money is conceived as a political thing, then the absence of international money is supposed and problematised. The solution is then introduced in the form of an implicit one world state (coming inevitably on the heals a single currency of a political nature. But the problems, described here by Wray (2000), are first and foremost conceptual ones, requiring conceptual not political solutions:

> As Kurke argues, as coins are nothing more than tokens of the city's authority, they could have been produced from any material. However, because the aristocrats measured a man's worth by the quantity and quality of the precious metal he had accumulated, the *polis* was required to mint high quality coins, unvarying in fineness. The citizens of the *polis* by their association with high quality, uniform, coin (and in the texts the citizen's "mettle" was tested by the quality of the coin) gained equal status; by providing a standard measure of value, coinage rendered labor comparable and in this sense coinage was an egalitarian innovation. As Kurke argues, the "mystification" of the origins of money that ties it to markets (rather than to the *polis* or state) is ideological - as it remains today - a purposeful rejection of the legitimacy of democratic government. Hence, while Kurke modifies to some extent the argument above, she similarly maintains that coinage was not a transactions-cost-minimizing invention but rather emerged from a spatially and temporally specific contest between an elite that wished to preserve the embedded hierarchy of gift exchange and a democratic *polis* moving to assert its sovereignty. This, however, leaves us with two problems. Within a sovereign nation, ultimate clearing is accomplished using high powered money (HPM) - the money issued by government and accepted at government pay offices. This is necessary when one economic unit has a net claim on another - after canceling debits and credits, if there is still a net claim, the

[26] The single global currency envisaged by Mundell, for which The Single Global Currency Association now campaigns.

> debtor delivers to the creditor some HPM. In the case of international trade, however, there is no ultimate HPM because there is no international government that stands above all sovereign nations.

The other end of the spectrum points to the opposite situation: that every individual human being could issue currency simply by signing and dating it, to the extent that it is recognised (and individuals comport themselves in an economically responsible manner) such a monetary system is viable. Indeed if they act in a co-ordinated manner, one could argue that no more than one money is present (only with many different faces) – while this is presently no more than a thought exercise, it serves to make clear that conceptual problems can be addressed at a conceptual level, without recourse to politics.

5.4 Individual, State, Economy – The Need for Categorical Distinctions

How is one to identify appropriate relations between the realm of self-directing human beings (the individual), the realm of political community (the state) and the realm in which humanity is united in one body (the economy)? Appropriate means true to the realm –such categorical distinctions are meaningful in the context of locating the sphere of activity of a central bank.

The Individual – sovereignty in freedom
Being one's own person, author of one's own destiny, thinking freely and being culturally unique are hallmarks of the individual.

The State – equality in democracy
The hallmark of the state is that it represents a community of individuals who abide by a shared legal system (of an egalitarian rather than stratified nature in the modern conception) – it is the apparatus of law that properly constitutes the state, rather than tax raising powers. National sovereignty is but a reflection of individual sovereignty. The individual becomes a legal person (citizen) through the state.

The Economy – recognition of demand in action
When trying to understand the working of the economy and seeing that it encompasses all humanity, the temptation is to construct its reality out of (or impose on it) juridical relations because of the ease with which such a manner of thinking (intellectual rather than practical) is adopted. It would be more appropriate to realize that money offers a medium through which this realm becomes visible and the essential nature of money becomes evident in the way it is accepted by others. To the extent that monetary transactions are veiled or distorted (for example when they are coloured by rights relationships) this realm is opaque – the practice of accounting constitutes a technique through which humanity can awaken in this realm and thereby clarify it. While demand is ever differentiated - because as individuals we have differing needs and differing gifts to offer – bookkeeping remains a common economic element. The thesis of this paper is that money is dynamic bookkeeping (after Steiner 1996) and central banks provide foci in which the condition of the money can become apparent (whether too much cash or credit for example) and the corrective measures can be mooted. Accountability here is an appropriate word because it designates the need to give an account, or in other words, to provide a narrative through which the numbers can speak and thereby allow all those who are economically active to understand what they need to do to bring equilibrium about. The hallmark of economic activity is de facto recognition of value by others - which is only brought into being through appropriate will and discernment of those responsible.

According to how a central bank is conceived in the context of these three realms the following approaches may result:

a) Market individualism

One feature of the culture associated with contemporary endorsement of market economics is the way in which individualism is championed – this finds its most virulent expression in the USA. In terms of the oft-expressed distinction between the state and the market, the state is associated with moral hazard in economic life and therefore central banks should get behind the market because it is held to represent the aggregated free choices of individuals. The market should drive events. In this image, the Federal Reserve would take on the colour of the views of those such as Henry Kaufman, Lehman Brothers director, who was reported as follows in the The Times May 19, 2006:

> Derivative positions were concentrated in the hands of relatively few financial institutions, who assumed that the state would bail them out if they got into trouble. "Deep down, the very large financial institutions

> believe they are not going to be allowed to fail." …No stranger to controversy, Dr Kaufman also took a potshot at interest rate setters on both sides of the Atlantic, suggesting that they did not take enough account of markets and asset prices. "Monetary policy is much more under the influence of academically trained economists who are model-driven, not necessarily market driven."

b) Democratic Statism

Overcoming individualism with a democratically inspired statist approach is a popular line of thought, associated with continental Europe. The European Central Bank (ECB) here provides an example of how this might evolve. Although currently it is reckoned to be democratically deficient, one can hardly conceive it in any other light than as a child of the European Union, which is of course a political project. Howarth and Loedel (2005: p.xiii-xiv) describe the ECB with a Hobbesian analysis which they appear to endorse:

> In a world that is 'nasty, brutish and short' the power of the regime – the Leviathan – to preserve order must be absolute. Without a common power over individuals to settle disputes, human beings become hostile to one another largely because they compete for limited resources, because their mistrust of one another forces them to try to protect themselves by dominating others, and because some people seek the glory of appearing superior to others. Considering the selfish passions of people, their fear of the Leviathan is the only reliable way to keep peace among them …it is not too far a leap to take Hobbes' understanding of human nature, self-interest, and competition and apply it to European monetary economics. …we feel that the ECB should be considered a major step in the emergence of some unique confederal entity…

c) Global Economic Thinking

In the view of this author, a proper understanding of central banking would describe it as an inherently economic activity prone to be captured in a political context or market context. This should not be taken to mean that it should have no interface with market or state – on the contrary, this would be of an explicit and robust nature. Consider the role of the Bank of England which, 'from habit and usage of many years', is considered to be part of the constitution without formally being so. That it is recognized by the market is forthrightly described by Bagehot in Lombard Street: "Nothing would persuade the English people to abolish the Bank of England: and if some calamnity swept it away, generations must elapse before at all the same trust would be placed in any other equivalent. On the wisdom of the directors of that one joint stock company, it depends whether England shall be solvent or insolvent." Though Bagehot did not endorse the lender of last resort function of the Bank he thought it highly unlikely that it would change: "…you might as well, or better, try to alter the English Monarchy and substitute a republic, as to alter the present constitution of the English Money Market, founded on the Bank of England, and substitute for it a system in which each bank shall keep its own reserve." Recognition by the state seems also not to be in doubt as Goodhart describes (Friedman, 2002: p. 102) in imagining a public conversation between the chancellor and the governor: "… I rather doubt that it would either be intrinsically desirable, or sensible in its own self-interest, for a central bank to flout too far and for too long the democratically expressed value judgements of people, and of their representatives in government, about the balance between competing objectives."

The role for a central bank envisaged here is one wherein it is representative of economic life (which is the global concern of humanity) and in which the principle of recognition by others is its signature. This contrasts with the signature of freedom of the individual (which is represented in markets) and democratic equality (the principle of the state). While the distinction between these realms is made in order to underline the idea that a central bank must be conceived separately from the realm of free individualism and the democratic imperative, if it is to remain independent and fit for its economic task, its conduct must demonstrate its ability to hold the balance and gain recognition from each realm.

6. The Central Banking Function

6.1 Social and Core Purposes

The natural evolution of central banking from banking per se is a well attested phenomenon described by Capie, Goodhart and Schnadt (1994). The traditional remit of the central banker and the changing role of central banks within the past 15 years is also well-documented. Frederic S Mishkin outlines seven criteria for a modern central bank, in his paper What Should Central Banks do? In the process of this development the distinction was gradually made that, in the words of Hawtrey (2000: p.116): “A central bank is a bankers bank, it affords to the other banks of the community, the competitive banks, the same facilities they afford their customers.” He thereby makes clear the difference between competitive behaviour and societal behaviour and making the central bank the representative of the latter. The 1694 charter of the Bank of England professes the desire of the Company ‘to promote Publick Good and Benefit of our People’. The Bank’s website (June 1st 2006) describes two core purposes[27] undertaken by two deputy governors bearing the same name:

> Core Purpose 1 - Monetary Stability
> Monetary stability means stable prices and confidence in the currency. Stable prices are defined by the Government's inflation target, which the Bank seeks to meet through the decisions on interest rates taken by the Monetary Policy Committee, explaining those decisions transparently and implementing them effectively in the money markets.
>
> Core Purpose 2 - Financial Stability
> Financial stability entails detecting and reducing threats to the financial system as a whole. Such threats are detected through the Bank’s surveillance and market intelligence functions. They are reduced by strengthening infrastructure, and by financial and other operations, at home and abroad, including, in exceptional circumstances, by acting as the lender of last resort.

To which a third purpose is added: “In pursuit of both purposes the Bank is open in communicating its views and analysis and works closely with others including …” The view here presented is that the essence of the central banking function is to be found in this third purpose, which consists of drawing out the significance of the other two. This was described in the introduction as follows: “increasingly divesting themselves of non-core practices and employing a signalling methodology that places a certain reliance on being hands-off. The implication is that their task is to think and share their thoughts, the responsive action must come from others.” This would place a special emphasis on the enlightening role of research and analysis, without which communication carries little weight.

6.2 The Window of Wise Governance

To arrive at an understanding of how the role of communication can carry the weight previously taken by direct action, the image of a window provides interesting food for thought. Blinder (2004b) talks about a central bank ‘providing a window into its thinking’. A window is an opening in an otherwise solid and opaque surface through which light can pass. It is defined by its frame and its transparent quality. Significantly a window both lets light in, and allows one to look out. From this we have the word outlook. An outlook is defined by nothing other than what one is looking at, whether physically visible or not, in this context, the economy. The window itself is an instrument for looking. This image is made use of in Houghton Budd’s (2005a: 76/77) monetary allegory, in which the experience of the new governor, in understanding how this monetary utopia functions, is described:

> Whatsoever we observe through The Window of Wise Governance we transpose into economic viability through stable monetary conditions. We cause nothing, however, but reflect back what the citizens as a whole engender. Our task is to think good thoughts; that is to say clear thoughts. On this depends the rightness of our interpretations and thus our judgments.

If this is what the governor of a bank is doing – in normal terms he causes nothing to happen – he only makes visible in his thoughts what he sees. Of course, what one sees may depend on how actively one looks. The image of the Governor of a central bank pulling levers to lift the scenery up and down is fast becoming anachronistic. Could it really be the case that one person (or group of people) determine that the economy goes one way and not the other? As I have already suggested it must surely be more accurate to say that their task is not to prescribe the interest rate but to divine or calculate it, and the rate they chose is only the corrective act by which all those who do not or cannot share their point of view must be steered. The sometimes discrete nature of central bank communication is alluded to by Goodhart in Capie (1994: p.3): “Commercial banks voluntarily accepted the central banks leadership – even by such informal mechanisms as the governors eyebrows.” According to Geoffrey Gardiner a Former Manager in the Financial Services Division of the Barclays Group, the Central Bank can no longer fulfil its traditional role in relation to creditary structures: “Creditary

[27] http://www.bankofengland.co.uk/about/corepurposes/index.htm

structures are the key to human economic progress but they need supervising intelligently and scientifically. The MPC has not the means or knowledge to fulfil that role." [28]

6.3 Price Stability and Financial stability

Increasingly price stability is taken to be common ground. Furthermore if bringing about price stability is an increasingly hands-off process, showing society the economic effect of what it chooses to do, rather than telling it what it must do, then this would indicate that price stability could be achieved by the independent co-ordinated endeavour of the economically active parties. According to Howard Davies (2005): "The happy truth is that monetary policy is not very controversial – and is certainly not very political, these days."

Likewise, financial stability might be understood as the effect of a certain culture. In 'Defining and achieving Financial Stability' Allen and Wood[29] claim that the Bank of England's use of the term in 1994 was the first coinage of the phase, yet it is now one which permeates the academic literature, and the publications of central banks around the world. Individual banking supervision and overall systemic stability are surely linked. Self-knowledge in this realm, among those who are financially active, which includes knowledge of the situation of others (a systemic view, in other words) will provider a surer guarantee of good infrastructure than all the external compliance one can instigate. Goodhart (2004: P.1) has searching questions pertaining to this second arm of central banking:

> But what exactly are the functional responsibilities of a central bank which is required to maintain systemic financial stability without having supervisory oversight of individual financial institutions? …Whereas it is clear that the FSA has sole responsibility for supervising individual financial institutions, the division of responsibility for systemic financial developments is more nuanced.

He goes on to elaborate where he thinks the issues are, and elucidates the possibility that individual strength may be compatible with systemic fragility (and presumably vice versa):

> Indeed there is currently no good way to define, nor certainly to give a quantitative measurement of, financial stability. When Phil Davis, who has established a professional chat group of experts on this subject on the internet, asked the group to define financial stability, the most persuasive responses were that it was just the absence of financial instability … So, I have become increasingly of the view that what needs to be done is to construct an underlying model that can act as an intellectual backstop to the systemic Financial Stability function, analogously to the way that macro-forecasting models provide the intellectual backbone to the MPC's interest rate decision. A major problem in this respect is that almost all the quantitative techniques for risk measurement that have been devised apply to the individual (banking) institution, not to the banking system as a whole … It is certainly likely that a financial (or banking) system with weak (strong) individual component institutions is likely to be systemically fragile (robust). Nevertheless it is simple to think of numerous conditions under which the inter-linkages are such that systems containing individually fragile banks are nevertheless systemically robust, and vice versa. For example, at the end of the 1980s the Japanese banks appeared individually strong and powerful, yet they were systemically fragile in the face of sharp asset price declines.

Clearly this encompasses issues of a different order of complexity to the popular view that central banking boils down to the setting of interest rates.[30] The issues that Goodhart raises are linked to the problem that he describes elsewhere in the same paper as 'dynamic instability induced by asset sales' (in turn precipitated by regulatory requirements). The same theme occurs in his contribution to Money, Inflation and the Constitutional Position of the Central Bank (Friedman 2002: p.103) where he touches on the core issue that he sees as 'a trade-off between maintaining stability in asset prices, in particular property prices, and hence also in systemic stability in the financial system on the one hand, and in controlling retail price inflation or goods and services inflation on the other.'

> The achievement of systemic financial stability is a much more complex issue than that of trying to hit an inflation target. The measurement of financial stability is conceptually much more difficult; there is no

[28] From private correspondence
[29] Quoted from Davies 2005
[30] Even such a view is only a shorthand description, for in determining what rate of interest is, in its view, appropriate a central bank is surely attempting to divine what the true rate is, the rate that, if one could see it, is implicitly given by the overall behaviour (economic activity) of all participants.

> single obvious instrument to adjust, if unilateral adjustment can be made expeditiously at all; and in the case of financial stability one is concerned about extreme, and hence improbable, events rather than central tendencies. For all such reasons accountability, except in a rather trivial ex post sense, is much more difficult. I intend to write more about such issues over the next few years. What I want to do now is to note that commercial banks, and banking, are more intimately connected with assets, and asset prices, than with the course of goods and services prices more widely. Bank lending is primarily for asset purchases, and when it is collateralised, the collateral involves assets, not goods and services … in this context domestic real estate, housing and property, has been and remains much more important than either equities, or foreign assets, in the nexus between banking and asset prices. If one worries about systemic stability in banking, one should worry most about property prices rather than the FTSE or the Dow Jones indices. That raises the question of whether there can be a trade-off between maintaining stability in asset prices, in particular property prices, and hence also in systemic stability in the financial system on the one hand, and in controlling retail price inflation or goods and services inflation on the other. Some of the practical problems of trying to take account of asset prices are well illustrated by the contrasting trends in housing and equity prices in the UK so far in 2002.

On the question of whether financial self-knowledge in this realm would include the principle that productive economic activity is more associated with goods and service than the ability to live off the balance sheet, he does not venture to suggest, but mildly says: "More generally, however, there is usually little conflict between the policy needs indicated by asset prices, and for systemic stability, on the one hand, and the needs indicated by goods and services prices, and for price stability, on the other."[31]

The following passages (ibid) might allow one to suggest that while monetary policy is the scientific side of central banking, in trying to comprehend financial stability (and the level of asset prices) the artistic element must come to expression – if for no other reason than that this is a reciprocal realm, as Goodhart's law (that financial indicators lose their regularity when they are taken as measures) implies:

> The point of this counter-factual is to contend that the main problem in trying to take asset prices into account in setting monetary policy is not so much the principle of whether it is desirable to do so, but rather the difficulty of assessing the extent of any current disequilibrium and of forecasting the future path of such prices over the policy horizon … While I do believe that monetary variables often contain useful information, rather an unfashionable position nowadays in Anglo- Saxon central banks, the ongoing structural shifts in banking, which are also affected by regulatory changes, sometimes make it extremely difficult to decipher the message in the monetary data. So where does that leave me on the broad question of whether it is right to take asset price developments, and the associated effect on financial stability, into account in trying to set monetary policy? My own answer to this is that it is correct to do so in principle, but that the practical problems of forecasting the current disequilibrium and future time path of asset prices are so severe that one is talking at most about shading monetary policy decisions on this account; and this, I guess, is what tends to happen already, though probably more often in response to asset price declines than to increases, for rather obvious reasons.[32]

6.4 Embedded Monetary Policy and Financial Self-Knowledge

So in respect of both of the Bank of England's core purposes one can discern the possibility that it will gradually lessen its own activity as societal awareness changes and wakes up to what really lies behind such functions. For example, in any community in which economic actors borrow and lend, the overall interest rate will be the proportionate mean of the many different rates of interest, which they themselves can decide, on a case by case basis, according to individual circumstance. Clearly different economic activities merit different rates of interest - the imposition of a universal one must therefore be uneconomic. Embedded monetary policy would be a way of describing such an outcome, after Houghton Budd (2005b): "The fact that e-money renders ever more visible the bookkeeping nature of money is crucial if, as the auditorial central banking concept envisages, monetary policy is to become embedded in the actions of countless individuals, rather than operating, as traditionally, via the agency of the central bank." The inflation of asset

[31] Ibid
[32] Ibid

values would similarly be seen for what it is and the use of the balance sheet to throw ones weight around rather than to support economic activity would be recognised as the true origin of systemic instability.

The third activity described by the Bank of England remains – communication. The bank provides the focal locus of a financial community. This would accord with the picture of a central bank not as a centrist determinant of economic conditions but as a focal point through which the community can bring them into consciousness. The logic of this approach is not born of an economic libertarianism, but the need to perceive rather than falsely predetermine what the reality is. Houghton Budd (1989: p.6/7) describes this idea in the following way:

> Money – however it is conceived – is representative of the real economy. Remove or wreck the real economy, and there is no money. Whereas money is abstracted out of the economy, one cannot abstract the economy out of money. For this reason money and the issuance of credit can be done in such a way that it describes what is, but it cannot prescribe what will be. The idea that it can is fallacious, notwithstanding the fact the entirety of modern economics seems to believe in it! If one could prescribe economic events by the creation of credit and emission of money, there would be nothing more natural than the establishment of centralised agencies whose task was to do just that. But if this were the case then the economy would give rise to them of its own accord. The fact that such agencies exist, but perforce of the state and in disregard of economic realities, shows their arbitrariness, as well as the abstract nature of the theory behind them. It is natural, too, that the state should seek control of the sole emitters of money because that is natural to centrist, political thinking… Centrist ideas are supposedly simple – that is their lure – but the problems generated by life ‘disobeying’ them are legion and of greater complexity than those belonging to so called ‘complicated’ economics would be. At least complex economics has the advantage that it contains and relies on inherent resolutions of its complexity, whereas simplistic economics is doomed to encirclement by intractable complications. To make sense of economic life and of central banking in particular one needs to retrace one’s steps, so to speak, to key points of change. One such point was the idea of sole emitters of money. At the moment when it would have been better to articulate the emission of money, it became centralised instead. This does not in any sense mean that central banks would not have been or are not today necessary – but it would have emphasised their monetary and researching functions, as opposed to their controlling and indoctrinating ones.

6.5 Financial Architecture as Financial Process

What kind of image can one make of a central bank in the light of the above. The traditional idea of a bank as a modern day temple, places an emphasis on its physical architecture. The idea of financial architecture is perhaps flawed to the extent that it provokes a static image of what is a dynamic process.[33] If a bank were made of glass and showed the real time bookkeeping of all the businesses for which it was the communal focus (for example, by lighting the numbers up in the panels of glass) that might indicate how form can represent function in a more modern way than chunks of masonry designed to keep gold safe.

7. Balance – The Golden Rule

A fundamental overarching image for economic life is conveyed by the idea of balance. Equilibrium is of course a disputed notion in formal economics, but in everyday parlance we welcome a balanced approach, books must be balanced and the middle ground held between opposing poles. After Aristotle, who can with some justification be called the father of economics, virtue is to be found in the mean, which must always be struck anew. To balance is an activity, requiring knowledge, discernment and will.

7.1 The Golden Mean

Balance is represented in the idea of symmetry, proportion and the golden mean. Luca Pacioli, the first person to describe double-entry bookkeeping, also wrote about the golden mean. Double-entry bookkeeping itself is an activity in which balance is ever to be found through the equal and opposing entries that must be made following every transaction.

[33] Perhaps the image from Goethe’s fairy tale is a more interesting one – in which the temple rises up from beneath the ground into the light of day

The gold standard was a means of ensuring the balance of trade, and in Keynes' proposed International Clearing Union, the idea of balance was made central, by allowing variations within a band of fluctuation, but sanctioning excessive deviations above or below the limits. Such a scheme would have required the conscious determination of the participating players to adopt a co-operative attitude, to stay in balance themselves and to be mindful of the overall balance (Harrod 1972). Without a balancing mechanism such as gold (i.e. an external measure which organises human behaviour) it is left to human beings themselves to take the responsibility for creating balance, which they can only do, presumably, in consciousness of one another's circumstances – for economically speaking we are not separate but conjoined in a great body. Where today is this notion of overall balance to be found, in which a target is a thing to be aimed for rather than a level to be exceeded?

7.2 Imbalances

That the problem of imbalances in the economy is the pre-eminent one in today's circumstances is not controversial. The trenchant problem of volatility in economic life is an indication of the absence of balance. The issue of volatility is felt most keenly in relation to asset pricing and its effect on price stability. Alan Greenspan gives evidence of this in Capie (1994: p.260). as does Mervyn King, Governor of the Bank of England, speaking in 2000[34]: "This year the key word will be "imbalances". The very word does not bode well for our attempt to balance the economic see-saw at home. So I want to pose three questions. First, what are these imbalances? Second, why have they arisen? Third, do they make it more difficult to balance the UK's economic see-saw?"

Clearly there are those for whom this does not constitute a problem, just the ups and downs of the market, which no one should presume to smooth out. But such a line of reasoning must steadfastly avert its gaze from what the numbers represent and the changed circumstances they invoke. If one is not to lead oneself into the Panglossian intellectual cul-de-sac wherein the market, by definiton, is the measure that tells us we live in the best of possible worlds (nor, indeed, to concede that a centrist state-sponsored and state-policed approach is needed to guide us back to economic health) then another measure is needed.

7.3 The Role of Individual Judgement

The role of the judgement of the individual, is referred to in the abstract of this paper, which makes the human being the arbiter of economic life. While it is normal, in terms of jargon, to refer to the firm, the state, the market, the household, the consumer, the investor, labour and so on, the human being as such, in his all-round existence rarely puts in an appearance in the formal literature of the discipline. One only glimpses partial facets that are set against one another in what must be described as a class analysis of economic life (because different classes are defined without reference being made to the whole of which they are parts).

7.4 The Entrepreneur

The closest one comes to the idea an economic individual (namely one who is responsible in his activity) is in the entrepreneur. It is only sovereign entrepreneurs, who can ultimately hold sway in economic life – this reality is only lamed at the moment by the intrusion of abstractions into this realm (namely the abstraction of the state in its economic dealings and the abstraction of financialism in organising economic activity over the heads of those who are nominally responsible). When one locates the conduct of economic life with the judgement of sovereign entrepreneurs, the principle can be recognised that man is the measure of all things. To make the market the measure is only to recognise one side of human nature, namely that one can act for oneself, a truer measure would include the notion that one can also recognise the consequences of one's actions and then pre-include them, this means being able to recognise oneself in others, to discover one's own economic wealth in an overall situation, when looked at from 'above the fray of the market.' To be able to do this, to perceive the economy, it is necessary to be able to see beyond one's own situation, to join with others in arriving at real economic judgements – because alone one can know as much about real economic circumstances as a man who wakes up in the night can know the time just by thinking.[35]

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[34] http://www.bankofengland.co.uk/publications/speeches/2000/speech82.htm
[35] The image comes from Jean Paul quoted by Steiner (1986)

7.5 The Division of Labour and the Golden Rule – Moral and Economic

When Thomas Aquinas formulated his notion of 'just' price, it was one which when applied in the round, would bring with it an overall community economic benefit, as much as individual justice. In the moral realm, Aquinas and the Scholasts are also associated with the Golden Rule: "Do unto others as you would have them do unto you." While the ethic of reciprocity is to be found in all religions, its application in economics is better understood as a strictly economic rule than as a moral one. In economic terms this is a way of seeing that one consequence of the division of labour is that what each man produces is consumed by the rest of humanity and what he consumes is produced by them. The benefit of the division of labour is greater, the more fully it is articulated – every human being on earth making his specialized contribution (from which he does not benefit) and receiving in turn the fruits of the labour of others. The great principle of mutuality that this implies works to the extent that it is supported.

What enables each human being to produce is the investment that is made in him (his ability to borrow), what enables him to consume is the extent to which he is able to participate in the process of exchange (made visible in bookkeeping). If the goods he consumes (other people's sales) are cancelled out by sales he makes (other people's consumption) then his ledger for income and expenditure will be maintained at zero.

So from a bookkeeping perspective (no mention has yet been made of money), there are two different types of phenomena to be recorded, the first is connected with what has been borrowed (or lent) – which is the means of production, the second is connected with what is produced and consumed (or spent).

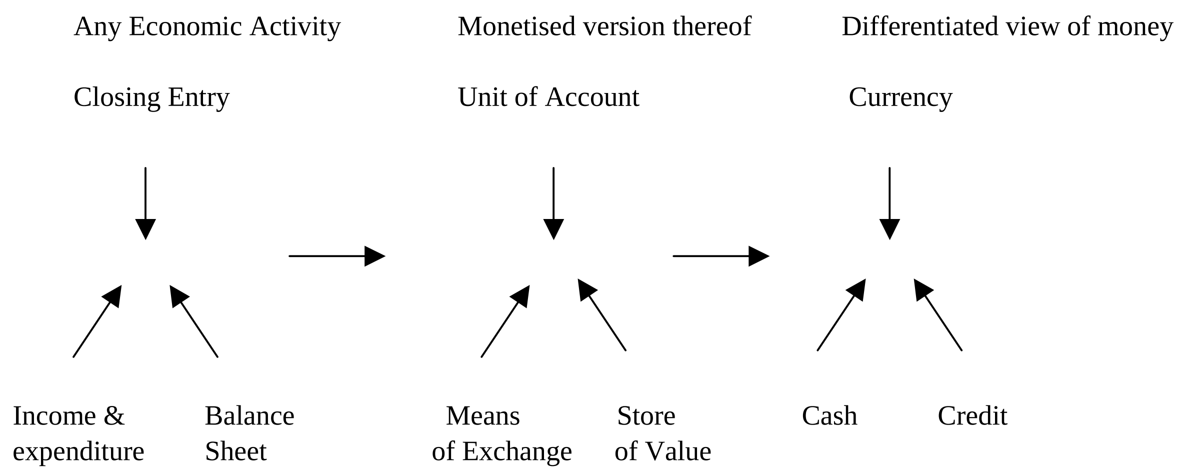
That there is a categorical distinction between these two ledgers can only be seen when the phenomenon which is ordinarily known as money is articulated. Making such a distinction is increasingly felt to be a matter of good practice. So for example in 2003 the Norwegian Parliament passed a change in national accounting to reflect the different effects of money spent on consumption versus investment. The UK Treasury also operates by what it calls the Golden Rule: "over the economic cycle, the Government will borrow only to invest and not to fund current spending (HM Treasury – Fiscal Policy in the UK)." Behind this dry formulation, an economic principle can be elucidated that makes a distinction between money of one kind and money of another (money is seen not as a thing in itself but as evident in bookkeeping). Good practice means living from sales (ie day to day expenses are covered by sales) and only using the balance sheet as an instrument to invest in future productivity. While this might seem like a statement of the obvious, consider the trend in modern economics to live from the balance sheet, whether popularly in rising house prices, or in market valuations that boil down to selling tradable assets. Yet the real economics is found in the income and expenditure, the balance sheet merely exists to enable the economic activity, a factor of production, not the production itself. When a gold standard operates, this situation is masked to some extent: gold is taken to be money, a single unarticulated phenomenon, physically present or absent. Looking further back one might surmise that such a distinction of this kind did previously exist where a gold standard was complimented by a wheat standard[36]. The hard and fast monetary rule which gold represents disappears when gold is de-monetised, and the challenge appears in its place to understand what it was representing. This involves creating out of bookkeeping, the money effect which gold provided externally – perhaps this is what Greenspan meant when he said we are acting as though we are on the gold standard. But whereas gold does not allow for any artificial contrivance of its amount (outside the realm of alchemy), the alchemy of modern finance is such that, while no external rule is given, the balance sheet is (by definition) a matter of artifice. To the extent that it is creatively managed, possibilities are afforded that did not previously exist (such as using a credit card to start a business), but with those possibilities come dangers - that lead, among other things, to inflation. The golden rule of distinguishing between investment and current spending offers humanity a means to manage this new situation.

8. Articulated Money - The Role of Bookkeeping

The need to form an articulated conception of money has already been several times alluded to. While not in current use, the term 'articulated money' refers the idea that 'money' is an insufficiently precise descriptive term – notwithstanding the apparent clarity of its use as a popular reference. Houghton Budd (2005b: 42-48) makes reference to money differentiation in observing the functions of money and reviewing the causal relations (or absence thereof) between cash and credit. Following the line of thought elaborated in the last chapter, confining oneself to observing economic activity and the relationships occurring therein, it becomes apparent that the mirror of the economic world (and thus the most

[36] See Houghton Budd's 'Of Wheat and Gold'

precise means for observing it) is to be found in bookkeeping – all the relevant information is recorded in the income and expenditure account and the balance sheet (without this yet being monetised) in two separate non–interchangeable ledgers. The moment this process is monetised (and the concepts of cash and credit are introduced) a unit of account is needed, this allows for a mediation between the two (previously separate) processes. This is effectively made through the closing entry concept. The following diagram illustrates this:



Without the precision of bookkeeping, one cannot sufficiently describe money. It becomes apparent that money is not anything in itself and that a distinction must be made between its different aspects, a distinction which is not present in the popular mind and therefore also not in current practices (for example the erosion of the distinction between current accounts and deposit accounts). Steiner (1922: lecture 12) introduces the notion of three kinds of money in his economics lectures: "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 there is no such thing as "money as such," there are only these three kinds of money…."

Depending on where one's predispositions lie, there will be a tendency to favour one side over the other (in terms of creditary chartalism and metallism). Wray (2000: p.9), a creditary economist, concludes that a medium of exchange is not at all necessary, while advocates of local currencies emphasize the exchange function of money only, as if everything connected with the balance sheet represents a sleight of hand (in this camp many monetary reformers and advocates of gold are to be found). Yet by understanding money as a phenomenon with three aspects, made visible in bookkeeping the distinction between cash and credit can be described and overcome. If this phenomenon is masked and, money is simply taken as money, then according to Steiner (1922: lecture 12) reality will take its revenge:

> We have therefore three kinds of money, qualitatively different from one another; purchase-money, loaned money and gift-money. Now to comprehend the relation between these three, we must consider economic systems such, for instance, as the private economies which we assumed hypothetically in the last lecture — economies representing a kind of closed domain. … you will say that this is hard to follow. It is. …in the economic process money undergoes metamorphoses; it acquires different qualities as it becomes loaned money or gift-money. But we mask this fact if we simply let money be money, and use the number inscribed on it as the unit of measurement and so forth. We mask it and the reality takes its revenge — a revenge which reveals itself in fluctuations of price, with which (though they are actual enough in the economic process) our reasoning faculty cannot keep pace.

The threefold nature of money is elaborated (from Keynes' Tract On Monetary Reform) by Houghton Budd (2005b: p.31-35) in terms of the relationship of stable measure, production and saving. It is also indicated by Wray (2000: p.5) in Keynes' Treatise on Money in terms of money of account, price lists and debts:

> In the Treatise, Keynes argued "Money proper in the full sense of the term can only exist in relation to a money of account" (Keynes 1930, p. 3), hinting that the unit of account must preexist use of a medium of exchange (or, at the very least, be created simultaneously) … According to Keynes, the money of account "comes into existence along with Debts, which are contracts for deferred payment, and Price-Lists, which are offers of contracts for sale or purchase? Money itself derives its character from its relationship to the

> Money-of-Account, since the debts and prices must first have been expressed in terms of the latter". (Keynes 1930, p. 3)

Wray goes on to refer to Keynes' (1983, p. 402). statement that: "money is the measure of value, but to regard it as having value itself is a relic of the view that the value of money is regulated by the value of the substance of which it is made, and is like confusing a theatre ticket with the performance." Desaules (2004: p. 85-91) devotes a chapter to three kinds of money as evidenced through accounting:

> With accounting-money, we already have a differentiated instrument of perception which contains much more wisdom than we might notice at first sight. Only accounting-money allows us to see in a precise way the evolution of money according to its three qualities: here matched to Steiner's nomenclature, the income and expenditure statement (purchase money), the balance sheet, including owners' equity (loan money), and the money 'freed' by the closing of the accounts (gift money). The full significance of these crucial differences is not yet appreciated, however. Economics, in particular, balks at this means of reconnecting economic science with reality. And yet, all over the world, research is tending exactly in the direction of clarifying the relation between economic reality and its reflection in accounting. The effort is underway to ensure that when, as it were, we look in the mirror of accounting, we all see the same thing. Thus, accounting already gives us the possibility of differentiating the three kinds of money as they exist in the world today. And nothing stops us from beginning to use accounting as a means to assess the aptness of our decisions. For example, is it better to help a business by means of the balance sheet, that is, by lending, or to promote trade with it, that is, by means of the income and expenditure statement? Depending on where and how we use money, the result will be very different between one place and another and thus the general equilibrium also. Whether we act at the level of a simple group of companies, or of an 'institution' (such as a pension fund), or even of a whole country, this question is enough to enable us to perceive the importance, not only of the amount of money involved, but also and especially the type of money. It is on this new dimension that the equilibrium and coherence of the world economy will come to rest.

Houghton Budd (2004: 105-109) also elaborates Steiner's thesis in a chapter on differentiated money

> It is interesting to note that textbook descriptions of money describe it as having three functions: as a medium of exchange (MX) to effect payment for goods and settlement of debts and other contractual obligations; as a store of value (SV) for holding wealth; and as a unit of account (UA), providing a numeraire for quoting prices and keeping accounts. Although by no means as well-known, equally interesting is Steiner's concept of three kinds of money, introduced in Chapter 5, in which he speaks of 'purchase money' (PM), 'loan money' (LM), and 'gift money' (GM) - meaning respectively money used for consumption, money used for investment (more precisely, the financing of the means of production), and money spent on the development of the individual and even a whole people (education in the most general sense). This last is of particular importance: Gift money is money that is needed by neither trade nor capital, and which is best used when donated to those people or institutions that comprise cultural life, on the grounds that for society generally it represents an ever-renewing source of new ideas and talents from whence new values flow. It does not require much thought to see a similarity at least between three functions of money and three kinds of money:
>
> MX – exchanging goods and services - PM
>
> SV – capitalising enterprises - LM
>
> UA – funding culture and education - GM
>
> Whether these terms are analogous in the strict sense need not be a matter for now. My point is that they allow each set of terms to be evaluated anew, giving more qualitative meaning to the functionalism of conventional economics and linking Steiner's terminology to known contemporary vocabulary. But the story goes farther. The global financial architecture (trade, capital and central banking) also has three elements. So, too, as noted earlier, does accounting (income and expenditure accounts, balance sheet and closing entries).

The Role of Bookkeeping

As previously indicated bookkeeping takes on a significance here beyond the mere convenience of record keeping. Its underlying structure (of three elements) has an orientating effect which creates a window of perception into economic life, when used to that purpose. Regrounding economic life in bookkeeping might be a way of putting to the test much of the up in the air theory from which it currently hangs. This is certainly the view of Braun and Fischer (2003): "Although economic practice is measured by bookkeeping, economic theory neglects its role. We want to bridge this gap … Bookkeeping is the mandatory measurement method for money and therefore the basis of modern economics." Yet in making a physical analogy of bookkeeping, "We analyze bookkeeping with a tight physical analogy which directly connects the main field of theoretical physics which is the interaction of particles, to the backbone of economics, namely double entry bookkeeping", Braun and Fischer come up against the frontiers of physicalism when they find: "zero-sum game violations in statements of capital, depreciations of tangible assets and single-sided exchanges" becasue they have sought to join two worlds of an unlike nature:

At the core of the differentiated money thesis is the need for an understanding of money that bridges two not-to-be-conflated worlds. Houghton Budd, (2005a: p.72) in his monetary allegory makes this distinction vivid through the whole narrative with the use of two colours, yellow and blue, between which the hero of story must find his way. These are then represented in the conclusion by two monetary chancellors (looking perhaps like the two deputy-governors of the Bank of England!)

Yellow Chancellor:

Mine is the world of meeting needs
Through transforming the bounty of the earth.
Its logic is of finite things and weighted treasure;
Material, goods shall be its measure.

Blue Chancellor:

While mine is born of human craft,
unfolding destiny and creative work.
Infinite, immaterial – to be perceived,
Its cover is ideals achieved.

They describe one world of 'weighted' 'finite things' of 'measure' and another which is 'infinite' and 'immaterial - to be perceived' (rather than to be measured). Interestingly enough what connects these two world is price, an observation which Braun and Fischer seem to indicate in another context. [37] A training in bookkeeping that distinguishes between the factual nature of the income and expenditure account and the creative possibility given by the balance sheet might lead one to see that an understanding of accounting can encompass science and art. The tension between science and art has been identified by many a commentator as being a problematic feature of the modern age. Jeremy Naydler, (2004) in an article entitled Polar Opposites[38] describes the time of the origin of this division.

[37] The use of two colours to distinguish two monies evident in bookkeeping is used in conjunction with visual imagery (Feynman-graphs) by Braun and Fischer (2002): "A black account currency for non-bank assets and a white loan currency for non-bank liabilities … We call this situation in banking a bicurrency system. That means there exists a loan euro in white and an account euro in black ... We therefore think that this extension of banking to two internal currencies would improve the control of credit bubbles in banking … We divide the world into an abstract monetary memory and the hands-on real world products and services. Transfers in the real world will be memorized in the monetary world. Both worlds have a concept of ownership, and the monetary world can be further divided into currencies.In red we show A and B exchanging euro against yen. In blue we see how a product transfer from C to A is memorized by a money transfer from A to C. The price is the only connection between both worlds."

[38] In a review of 'Who wrote Bacon?': It was at this time [during the life of James 1] that the division in our society that has since become known as 'the two cultures' - the culture of science on the one hand and of the arts on the other - was born. The antagonism between these two sensibilities has from the seventeenth century become increasingly entrenched, as scientific advances menace ever more darkly the inner life of the soul. This book concerns itself with the figures of Francis Bacon and William Shakespeare, who respectively worked so powerfully into the scientific and artistic spheres… The key elements of Bacon's 'new philosophy' were his articulation of a thoroughly materialistic scientific method aimed at dominating nature for human benefit - he even looked forward to the genetic manipulation of plant and animal species - and an affirmation of commercialism and purely economic measures of value. What is expressed in his work is really the antithesis of what we experience in Shakespeare's plays, so that, far from a deep affinity between the two, they should rather be regarded as polar opposites.

8.1 Accounting As An Instrument For Inherent Regulation

In a further elaboration of the theme of polarities described earlier, Houghton Budd, (2005a: p.64/5) imagines how a finer appreciation of bookkeeping might allow centrist regulation to 'pass into history':

> Named after the Italian mathematician who first described, but did not invent, double-entry bookkeeping, the Pacioli Room provided a fitting sequel to the Aquinas Room. It was laid out as a seminar room, with a podium and several banks of student seats, all of them filled with trainee managers. These were people who would go on to hold responsible positions in the various monetary institutions and Financial Literacy Colleges throughout the confederation. Those passing through this room, in this case Victor, were required to take the podium and were given one hour maximum to explain the principles of double-entry bookkeeping. A second hour was given over to a discourse on how, through double entry, the human being could emancipate himself from external constraints and himself become the regulator of economic life. All centrist regulation would then be able to pass into history. 'Italian bookkeeping', as it was called, gave the human being a perspective on himself that previously he had depended on priests to give him. If one could engender the right combination of technical understanding and moral comprehension in the students, one could leave the podium and continue.

It is the problem of regulation that Goodhart (2004) describes in Dantean terms; the moral of the story he gives seems to be a heavy hint in the direction of better accounting (for what else are accounts than the footprints of human deeds and the mirror of intentions):

> I could have added that the task of devising good and effective financial regulation is truly like the labours of Sisyphus. And at least Sisyphus could reminisce about the reasons he got condemned to roll the stone uphill, which was that he had seduced scores of inappropriate ladies, whereas I surmise that most of those on the Basel Committee just found themselves in the wrong place at the wrong time. Actually Sisyphus' myth does have another real lesson for bank supervisors. You know how banks can make risk apparently disappear off-balance sheet by securitisation and credit risk derivatives. Sisyphus had a neighbour, Autolycus, who could make objects temporarily disappear from sight and was stealing Sisyphus' cattle. Sisyphus dealt with this by marking the bottom of their hooves, and was able to track their passage through the muddy ground. So the moral of this story is that if the final resting place of risk is hard to observe, at least try to track its passage through the markets.

9. Citizenised Central Banking – after the quiet revolution

> "all markets and participants therein should, in my view, be invited to think about and process information as the central bank itself does"[39]

The central idea of this paper has been to elaborate how through a heightened understanding of the nature of money made visible in accounting, the inner side of economic life becomes apparent. The role of the central banker (and others by other names in other ages) is conceived in terms of the responsibility for the maintenance of overall economic health, achieved though various monetary and regulatory functions. An understanding of the art and science of central banking - including the very idea that such a thing is in the first place necessary, which some advocates of free-banking would certainly dispute - can no longer rest with central bankers alone. Increasingly the means at their disposal allow them only to indicate what they would wish to see rather than to impose it; they must attempt to generalize the conduct that leads to the overall systemic health that they seek to engender. Conscious economic conduct can only arise through perceiving economic life in the round, rather than just one's own corner of it. A scientific approach toward the perception of economic life is afforded by accounting, gaining a systemic view by making oneself aware not only of one's own situation but also that of others. An appreciation of concrete economic circumstances cannot be achieved alone, but with others. Steiner (1996b: p. 26-28) puts the case in a radical manner:

> … the individual as such cannot attain to a social judgement. It is a social mystery, that every individual judgement on a social question is a false one. Study what clever judgements were passed when the gold standard was introduced into Europe. … the cleverest people, however many of them there are, talk utter

[39] Dr X.P. Guma, The Outlook For Monetary Policy, to the BER Conference, 22 June 2005

> nonsense as regards their social judgements if they speak as individuals, if they judge only with what comes out of the single human individuality … In my 'Threefold Social Order[40]' I have called such organizations 'association', in which the social judgement proceeds not from the individual but from the common life of the associations consisting of consumers, producers and traders. Thus once more[41] we have social groups out of which is formed in full consciousness the social judgement that the individual cannot acquire. However long one reflects over a solution for the social question, all such reflection is nonsense. The only sensible course is to form social groups in which we can hope that a partial solution will arise …

The essential task of the central banker is to perceive economic life. A central bank may be thought of as a focus for economic activity through which that which exists in the periphery is made visible at the centre. The creation of such foci needn't be an institutional matter: that those responsible for economic undertakings gather to make themselves conscious of their situation all together might be analogous to the way that birds need to flock in order to get a picture of their whole being together (which is clearly distinct from their separate being)

J.K. Galbraith (1974:5) takes the view that: "There is nothing about money that cannot be understood by the person of reasonable curiosity, diligence and intelligence…" Such optimism should not be termed a naïve or fond hope – the only future that can realistically be conceived is an economically sustainable one, the task of the present must be to chart the way towards it. No intrinsic reason can prevent humanity from a taking hold of economic life in the manner that has here been described as citizenised central banking. Whether in future humanity will be up to such a task remains to be seen.

The notion that a central bank provides the stroke at which the economy runs is an image that is occasionally made. For Keynes the Bank of England was the conductor in a global economic orchestra, with the rate of money being the baton.[42] [43] Whether the international cacophony that Keynes referred to is any less demoralizing now than at the time he wrote, will have to be left to the reader's judgment. The task of the central bank today is less to play a lead role in orchestrating the economic music or and more to provide a context in which the orchestra can conducts itself. The language it speaks, the images it uses and the gestures it makes are clearly of significance. Houghton Budd, (2005a: p.80), describes The Monetary Committee of Rare Albion performing this task:

> The Monetary Committee was responsible for creating and maintaining an on-going image of the economic life of Columbia as a whole. It did so through monitoring the economic life of Rare Albion, which was the heart of Columbia. Rare Albion could not be in balance if the rest of Columbia were not also. And vice versa.

Blinder (2004) in 'The Quiet Revolution: central banking goes modern' identifies some of the trends he sees as having developed over the past 15 years namely: whether central banks should be transparent or opaque, presided over by individuals or committees and the master or servant of financial markets. It would appear that the first two are largely decided in favour of transparency and collegiate decision making. The third theme is the one that Houghon Budd (after Thornton) describes as double independence. Blinder too (2004: p.65-66) puts his perspective clearly:

> there is another kind of independence that at least some strains of modern central banking may actually be endangering, independence from the financial markets. …some modern central bankers seem to have become so deeply respectful of markets that a new danger is emerging: that monetary policy makers might be tempted to "follow the markets" slavishly, essentially delivering the monetary policy that the markets expect or demand. …many more central banks now view markets as repositories of great power and wisdom – as sages to be listened to rather than merely as forces to be reckoned with.

He goes on to describe the problem of time horizons (the shortness of which were cited as a ground for operational independence from political influence), but now time horizons in financial markets are shorter than political ones (2004: p.94):

[40] A reference to The Threefold Commonwealth, published by Steiner in 1919 in which he describes society in terms of three realms - the cultural, the political and the economic – which in the 20th century need to be understood out of their own logic and managed independently.
[41] Steiner previously refered to the way in which social judgments arose unconsciously out of the life of groups in the theocratic age.
[42] Described in Eichengreen (1997).
[43] Anyone who has seen Andrew Manze conduct the English Concert will know that an orchestra can also be conducted by an instrumentalist just using his head and torso!

> The phenomenon of market over-reaction and momentum investing must be reckoned with – should central banks follow them in this respect? If that were to happen 'monetary policy decisions would effectively be privatised … that does not mean that central bankers can emulate King Canute and pretend that they can command the markets … most fundamentally markets need to be led, not followed.

He ends on a Shakespearian note by describing this idea (that one should lead the markets, not follow them) as a consummation devoutly to be wished, leaving the reader with the question of how this is to be achieved, given their willful nature.

Enlightened Prince To Enlightened Citizen.

One theme of this essay has been to portray central banks as information centers, which become accessible to the active citizen. Without the levers to pull that effect change in the economy, what will central bankers do? Is it enough to present a true economic outlook, and thereby provoke the concerted activity of those whose activity defines that outlook? Goodhart in Brealey (2001: P.96) puts much onus on information:

> information, information, information … in the conduct of its various responsibilities for macro-economic policy, systemic stability and the smooth running of the payments system, a central bank needs adequate micro-level information on the structural state of the major banks in its country in order to fulfil its duties adequately.

A further question arises when one asks how the information is to be organized interpreted and understood. For Archer (2005: 15/16) the "the key issue is credibility" and Carl Walsh (2003) states that "the three most important ingredients to a successful monetary policy are credibility, credibility and credibility." Guma's (2005) statement that: "communication is, of course, multi-directional when effective: there has to be, at a minimum, a transmitter and a receiver." raises the question of how this communication is conceived. What is the difference, for example between a virtuous circle (reciprocity) and a vicious feedback loop. Clearly raw data, information, knowledge, and wisdom are of different orders. Guma continues by suggesting that it is in regard to their way of thinking that central banks need to think about communicating:

> The second, essential audience – according to Blinder and Wyplosz - is that of the financial markets. These, they contend, need to be taught to think and process information as the central bank does itself. I agree, although my view would be stated more gently: all markets and participants therein should, in my view, be invited to think about and process information as the central bank itself does.[44]

In concentrated formulation, Guma here captures the essence of citizenised central banking: that 'all participants should be invited to think about and process information as the central bank itself does'. If this seems like an ambitious project, one need only extend Goodhart's (Brealey (2001: P.101)) question in the context of the relationship of the Bank of England to the Financial Services Authority ever wider: "Why can information flows not be as good between agencies as when they are internalised within the same institution?" If, in fact, the answer is that they can, then Houghton Budd's (2005a: p.117) allegorical image of a monetarily conscious society need not be as far away as at first one might imagine:

> By the end of his briefing, Victor had already intuited how the Monetary Committee worked. Existing not for itself, but as an organ of perception for the economy as a whole, it had to be, after Goethe's famous phrase, created by the light for the light. Its way of working was thus implicit in its make-up and context. The Committee met weekly in order to receive reports from the various members, the combined information from which became the basis of its decision-making. But it had no levers other than the content of its counsels. If, for example, it was clear that the overall interest rate was too high or too low, it gave thought to what conditions in the various sectors of the economy would, in reciprocation with one another, give rise to a 'better' rate. It then used its communiqués and agents to encourage the citizens to bring these conditions about through their own activities. There were few people in Rare Albion-Columbia who did not subscribe to the weekly Monetary Reporter, because they believed their individual actions should be coherent with the economy as a whole. Why leave it to an 'invisible hand' to make social the disparate acts of individuals when one can as easily do so by conscious intent and practice.

[44] Dr X.P. Guma, The Outlook For Monetary Policy, to the BER Conference, 22 June 2005

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