Talking Economics Monthly

AN ASSOCIATIVE PERSPECTIVE ON ECONOMIC LIFE

JANUARY 2005

Associative Economics is based on the idea that economic life is the shared responsibility of every human being.

Talking Economics makes this responsibility conscious and gives it practical effect.

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A TO Z OF ECONOMICS

Each month in this section a specific topic is chosen as part of a project to build a glossary about economic life from an associative point of view.

A : Aristotle

Modern economics really begins with Aristotle and thus pre-dates the subsequent development of market theory. While understandable, the idea of a marketised world in which human beings have only ever functioned in terms of supply and demand is not true. The market is a late and relatively unsophisticated view. Moreover, it places human beings outside economic events, suggesting that they should not interfere with the 'objectivity' of market forces. How different is the gesture in the wonderful phrase from Aristotle in which he describes as free the one who gives "in the right way to the right persons to the right amount at the right time…" (*Nichomachaen Ethics*, Book IV, Chapter 1.) Freedom here does not mean laissez-faire, but a matter of sensing what is right. Thus, the human being is seen as the central agent for introducing moral content into economic activity. A slave to the market he is not!

A Pound for the World

Arthur Edwards

Speculation in the financial markets themselves is sometimes matched by that of journalists attempting to determine the market's mood. The dollar's situation and its future as a key currency is presently exercising the mind of many a columnist.

For example: William Rees-Mogg, a British elder-journalist, somewhat dramatically warns that the 'avalanche is coming' in the title of his piece in *The Times*, London, Monday November 22nd 2004. Taking as his starting point the cyclic relationship between gold, which is at its highest for 16 years, and the dollar, which has been 'at its lowest level in the lifetime of the euro', he goes on to underline why he thinks we should be worried by this essential weakness of the dollar and expect an avalanche of cheap dollars. Stating that the Federal Reserve is becoming extremely anxious, he cites Alan Greenspan's warning that the US current account deficit is unsustainable.

Anatole Kaletsky, by contrast, also writing in *The Times* (Tuesday November 30th) is altogether more sanguine. Teasingly, he opens his piece by asking 'How far will the dollar fall and how much damage will it do to the world economy?' He admits that 'nobody who matters in Washington cares about the deficit' and 'taxes will probably be cut yet again under the pretext of social security reform'. He then goes on to declare that 'There is no good economic reason for US policymakers to worry about either budget or trade deficit, as long as there is no sign of the nasty consequences that these supposedly produce, namely high-interest rates and rising inflation.' According to Kaletsky, 'President Bush is doing the US citizens a favour by borrowing as much as he can at 4% from gullible foreign investors and then devaluing the dollar before he repays these debts.' Kaletsky thinks there is also something in it for the rest of the world who can 'enjoy the devaluing dollar by taking cheap holidays to Disney World.'

Yet while Kaletsky feels that this is simply a situation that needs to be sensibly managed - by the European Central Bank because he believes that policy changes in the US and China are out of the question – Rees-Mogg thinks that there is an underlying structural question at issue. Focusing on what it means to be a key currency and how it may entail structural weaknesses, he reminds us that the problem is not a new one: in 1920s Britain the pound sterling was the key currency and 'London was still the centre of the world exchange system.' One might indeed add that much of today's debate is reminiscent of the time when British drawing rooms were full of nothing other than talk of the gold standard and how to manage the currency situation.

Rees-Mogg identifies the ability of the government of a key currency to borrow without limit and apparently without penalty as one major issue, because unlike governments of other currencies it is not subject to 'the discipline of the market.' Lack of self-discipline causes a currency to weaken and become in Rees-Mogg's terms 'cumulatively less competitive.' Added to this is the fact that since 1971, the dollar has been inconvertible – it is not backed by anything tangible – a situation which he says makes the dollar 'unusual and vulnerable'. It is an interesting paradox, one might think of a key currency as the leading actor who is simultaneously holding up the stage while other actors climb on: such a responsibility is bound to make the strong man vulnerable.

From an associative point of view, one cannot realistically understand the global currency situation without being able to take a perspective on the 20th/21st century as a whole and without having an image of before and after, where we came from and where we intend to go. Economists cannot afford to be ahistorical; still now in the 21st century one must be able to appreciate the role of sterling in the last, because of its role in the way the world's economy has unfolded. Equally, it is of concern if the currency debate is conducted in terms of a heavyweight boxing match in which the dollar has a showdown with the euro, in order to decide who gets to face the yuan. The role of sterling should be understood not in a political or a geo-political sense but in a purely economic one. Clearly sterling does not now exert a force of the kind that the US has exerted through the dollar. Therein lies a lesson – sterling could not maintain its role as key currency, partly for the reasons that Rees-Mogg outlined, but primarily because to play such a role in a global economy

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EDITORIAL

The question of currency goes through this issue. It ranges from popular concerns about the affordability of shopping trips on the other side of the Atlantic, to the exacting considerations of monetary policy in a global economy. From the perspective of associative economics, it is exactly the fact of global economy that must be placed squarely in the foreground if we are to make sense of current circumstances.

Indeed this edition's leading article, *A Pound for the World*, argues that not just current circumstances, but the 20th century as a whole must be re-considered in the perspective of a global economy. Only then do the underlying issues become comprehensible. These issues were known and identified in the 1920s by figures such as John Maynard Keynes and Rudolf Steiner, the former advocating an articulated monetary policy based on conscious currency management, the latter describing economics as a science that needs dynamic concepts if it is to be understood in a way that is true to life.

Christopher Houghton Budd brings these two approaches together in the feature article, entitled *'Freed Capital' and the Prospects for Independent Monetary Policy in an Interdependent World*. Taking his cue from Milton Friedman's 'own lights' doctrine, he looks at the implications of global economy for foreign exchange and capital flows, and finds that there is a need to take more formal account of capital that is 'freed from locality and tradition'.

The appearance of new terms, such as 'freed capital' is to be expected in a discipline that updates itself with new phenomena. No apology is made, therefore, for the use of such new imagery. If the landscape that such language describes were more visible to humanity, we would begin to see ourselves increasingly as players in the orchestra of an economic symphony and less as combatants pitted against one another in the competitive free-for-all of a global scrum.

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is no longer a realistic economic thing to do. The age of the key currency is over; like the internet, the global economy works not from the centre out, but from the periphery in. It is better understood as a network phenomenon than as a command one.

At this point one needs to be able to think in big picture terms that embrace the course of history and to offer stabilising images that will allow humanity to take the next step in the evolution of its economy. In a world of universally floating exchange rates one could imagine a reciprocal ring of currencies, bespeaking not the superpower image of world leadership, but a choir of cultures made up of diverse yet economically integrated destinies of nations. To bring such a situation into being would require a quieter and more tactful kind of leadership.

Sterling is hardly an example of this, either in its actual history or its present management. Yet if one were to look a little deeper could one not see a development that could have – nay, dare one say - should have taken place? Britain had the opportunity, when running the show, to step down from the imperial throne and 'partnerise' the world's economy. The history of the 20th century in terms of economics cannot be properly told without reference to J M Keynes, who throughout his life pointed with such authority and conviction to a better way of understanding the currency question. Had his proposal for the bancor been accepted, international finance might today find itself in a more comprehensible and saner situation. Indeed, the institutional context that was to have accompanied it would have gently allowed the nations of the world to bring their balances of payment into a healthier relationship.

The questions that came with the First World War and the various solutions that Keynes proposed, have largely been glossed over, yet the issues remain the same. Understanding currency in a global economy must be at the top of the agenda, otherwise it will simply keep announcing itself, whether suggestively in the form of SDRs (the *International Monetary Fund's* special drawing rights), brutally in the form of a militarised dollar, or retrogressively in the return of gold, Keynes' 'barbaric relic'.

What is the role of the pound in all this? The 19th century saw Britain preside over a proto-global economy. Could it have been given a nature other than the one it has in its present guise? By judging Keynes' remarks to Harold Nicholson in 1940, he clearly thought that that was the case: 'Area pound (sterling) not confined to England or to the Empire; a preservation of universality and lasting worth of old pound sterling. The long established and smooth, reliable machinery of the City of London, which has grown up on conducting international trade on the simplest most honourable and cheapest basis. It is not sterling itself which is useful; it is the sterling area, to which it is the key, and that is necessary to all the world.'

Perhap one can now see the Commonwealth as a reminder of the idea that the economy of the world is for humanity, not for one nation only. Keynes was convinced that this could be achieved by British leadership, in *New Statesman and Nation* 7th March 1931 he writes: ' …that we may resume the vacant financial leadership of the world, which no one else has the experience or public spirit to occupy, speaking out of acknowledged strength not out of weakness …which we alone are capable of using in the general interest.'

Today, however, this seems errant and anachronistic. The point is not about the British, nor indeed even about sterling, the point is to connect financial leadership with public spirit, a gesture which can include all nations and every individual. There is a need for better guiding imagery that will allow humanity to look into and then build a more viable future rather than simply reacting to ongoing events. Rees-Mogg ends by saying that 'The present system depends on the dollar, the keystone of the arch. Without confidence the world has no valid reserve currency… if confidence is not restored there will be pressure for familiar false remedies, for competitive devaluation or protectionism … yet the world exchange crisis is being treated as everybody's problem and therefore nobody's.'

How satisfactory do economists feel the situation is when apparently no one is conducting events? Is there a role for sterling to play in standing the ground in the community of the world's cultures not anymore as a soloist, nor even a servile second fiddle, but as a full and equal voice in the choir? If the pound were to do this then it would not be a question of feeling prevailed upon to choose between the dollar and the euro, but of sounding one's own note and finding one's own way, not in spite of others, but in their company.

The View from Rare Albion

Introducing a column by Christopher Houghton Budd

What and where is Rare Albion? For many years, I have felt the need for a literary device through which the complex matters of modern economic life, especially in its monetary aspect, could be made more accessible to everyday awareness. Two books have played a strong part in this idea – Rene Daumal's *Mount Analogue* (1) and William Morris' *News from Nowhere* (2). Both are allegorical, even utopian, accounts of possibilities and places that people ordinarily think cannot be understood or brought into existence.

In this 'genre', the story of Rare Albion, which is told in a book of the same name (3), is about a mythical land in which sound money is the accepted basis of civilised existence, not only on the part of financial people and experts, but also in the day-to-day dealings of its citizens. In this imaginary place, a future landscape is envisaged in which the many problems attendant on narrow, nationalistic and merely market-based views of economic life have given way instead to a single global economy, associatively rather than competitively organised, in which human beings are assumed to be capable of cooperating for the higher good of humanity.

Rare Albion is the island capital of the Confederated States of Columbia, its mythical nature further reinforced by a narrative which begins by asking 'Whatever happened to the wizard from Oz?', and then proceeds to tell the story of how, when the wizard left Oz in his hot air balloon, he floated over the 20th century, from which height he could survey all its errors and consequent economic travails. He also saw how humanity entered the Vale of Numbers, a dead-end existence bounded by the Hills of Myopia. He became convinced that the travails of humanity were the result of his policies when in Oz and he resolved to make amends, so that through contributing to a better understanding of economic life he could after all help make the world a better place.

Why the Wizard of Oz? Because this famous story (4) that has become part of American folk life can also be seen as a detailed monetary narrative for events that occurred at the end of the 19th century in the USA (5). Thus a second genre came into being.

The wizard's experiences in Rare Albion, along with the characters he meets and the places he visits are fictional, although throughout the references to monetary and economic issues are underpinned by concrete understanding of these topics, while the places are reminiscent of actual locations. The story culminates in a special vantage point, from which anyone seriously concerned about the way the world is going and how the future of economic governance will develop can observe how events could unfold in an associative way. People may say no such world exists, yet global finance itself is leading us into it, leading us to the need to understand individual economic actions in the light of the global economy as a whole and as one. This will be the point of view taken in this column.

(1) *Mount Analogue.* Rene Daumal, City Lights Books, San Francisco, 1969.
(2) *News from Nowhere or an Epoch of Rest: Being Some Chapters from a Utopian Romance*. William Morris, Oxford World's Classics.
(3) *Rare Albion – The Further Adventures of a Wizard from Oz, A Monetary Allegory*. Christopher Houghton Budd, New Economy Publications, Canterbury, 2005.
(4) *The Wonderful Wizard of Oz*. L. Frank Baum, Penguin Popular Classics, 1995.
(5) *The Wizard of Oz as a Monetary Allegory*. Hugh Rockoff, Journal of Political Economy 98 (1990).

SIGNS OF THE TIMES

A World Currency

In an age of one economy, a global one, the idea that there should be one currency also is hard to resist. Indeed the question for many economists and policy-makers is not whether there should be one currency, but how to implement it. The year 2004 saw the first gathering of the Single Global Currency Association, an organisation dedicated to the goal of implementing a single global currency by 2024. It aims to do this through education and persuasion and is committed to holding successive annual conferences until the single global currency is implemented, with a global central bank. There is the rub. A single global currency is a different matter from a global central bank. A currency is primarily an economic thing but a central bank will tend to be answerable to a political agenda – for just this reason John Maynard Keynes wished the Bretton Woods Institutions to be located not in Washington, the political centre where they now are, but in New York, where they would be alive to purely economic considerations.Keynes' lifelong concern with currency questions, specifically how to go beyond gold, culminated in his proposed Bancor, an international banking currency, designed to better mediate balances of payment between nations. Although his proposal didn't survive the negotiations that brought the Bretton Woods institutions into the world, it is surely with this in mind, that the Single Global Currency Association has decided on Bretton Woods as its permanent conference venue.

By asking what can replace gold as a universal currency mediator and thereby hold the world's economy in balance, it is on the act of balancing that one must focus, a human activity which no market, metal or central bank can replace.In their relationships with one another, the currencies of the world need only find how to strike a balance. This balance will reveal the existence of a common currency, the expression of which is accounting. For those who wish to live in a single global polity, under a world government, a global central bank will not offend; but for those whose interest is in the economics, it will be a question of showing that an economic world currency is not made by fiat but revealed through accounting.

FEATURE

‘Freed Capital’ and the Prospects for Independent Monetary Policy in an Interdependent World.

Christopher Houghton Budd

“…flexible exchange rates are a means of combining interdependence among countries through trade with a maximum of internal monetary independence; they are a means of permitting each country to seek for monetary stability according to its own lights, without either imposing its mistakes on its neighbours or having their mistakes imposed on it. If all countries succeeded, the result would be a system of reasonably stable exchange rates; the substance of effective harmonisation would be attained without the risks of formal but ineffective harmonisation.”

For some time, this famous dictum from Milton Friedman has provided what one might call the monetary community with something of an ideal. It has played an important part in the development of modern monetary policy, underpinning central bank independence in particular. It appeals to Anglo-Saxon notions of independence and sovereignty, of course; yet herein may lie a problem. Marking as they do emancipation from the dogmas of organised religion, party politics and other ‘collectivist’ value systems, independence and sovereignty are very real considerations when it comes to the individual. But how real are they when it comes to collections of individuals (nations) and how real are independence and sovereignty as watchwords for an economic life that has become global? Whether it is the reliance of the local shop on goods from afar or the interconnectedness of China’s boom with America’s deficit, modern economic life has become an interdependent affair.

This raises the question: Can one have an independent monetary policy in an interdependent world? So far the received wisdom says: ‘Not easily.’ The Unholy Trinity idea developed by Robert Mundell and others suggests it is difficult because one cannot have independent monetary policy, free global capital *and* fixed exchange rates all at once. The only way beyond this is to create superstates and, presumably, ultimately a one-world state. But this outcome has implicitly within it a more important idea. In a superstate, such as the European Union would become, and especially in a single global polity, there is only one currency. It is the fact of a single currency that solves the unholy trilemma, leading us beyond the world of *either* fixed *or* floating exchange rates (but with all points in between).

Yet a single currency need not be a matter of fiat. Indeed, in a single global state it could not be, unless the economy was also run by fiat – that is, soviet style. We do not see this in the EU because it continues to be one entity among others. Therefore, however, it is not a reliable model for what would happen at the global level.

A single global economy is what we would experience today were it not for our continued use of out-dated concepts of national economic independence. In such an economy, if we seek to avoid fiat management of both events and currency we have little choice but to recognise the special nature and inherent dynamics of a one-world economy and to recognise, too, that these are not the same as those of a severalty of national economies.

With the emergence of a single global economy, where there is no other player, competition ceases to be the driver. By definition, competition between nations falls away. But so, too, does competition between the factors of production. And so, crucially, does competition between currencies, for there is only one.

How, then, can independent monetary policy be maintained? Clearly, by being *a part of* the world economy, not *apart from* it. By not trying to use ‘one’s own light’ to outshine all others, but as a beacon of the particular gift one is bringing to the general table – one’s comparative uniqueness. Independent lights ought to add up to a colourful rainbow, the world as a spectrum, not a monochrome.

It is said that a world state is a long way off. Indeed, for many it is also a dubious goal. Yet we do not need a world state or even the prospect of it in order to experience a single world economy and with it a single global currency. We need a global state (and its fore-runners) if we would have a fiat-based economic life; but a non-statist approach to economic life can give effect to a single economic existence, together with its corollary of a single currency, by the simple ‘device’ of resting *all* national economies on the one conceptual image. The result would be an articulated, rather than monolithic, world currency. National identities could remain, but the approach would be constant.

A first step in this regard is already taken, of course, when a national economy adopts central bank independence. So far, independent monetary policy has necessarily focused on how one can achieve low inflation domestically. But it has been hampered by the fact that if a neighbour does not follow suit, the presence of more than one currency and more than one monetary policy regime means the exchange rate constantly fights against domestic monetary policy. Were all countries to take Milton Friedman to heart, however, they would not need to give up their national emblem (dollar, pound, euro, etc.) They would create a single economy out of its parts. By keeping the currencies but adopting a common approach, the particular characteristics of the countries would shine through, as it were. (Indeed, a choir of cultures rather than a standardised way of life is arguably the necessary counterpart of a single global economy.)

The problem is that in such a world, the value of capital and the possibility to gain on the movement of capital could not be achieved by going in and out of currencies. Capital flows that owed their existence to the foreign exchange markets would simply not happen. In financial circles this prospect is decried, of course. Yet it is the globalisation of finance itself that is bringing it about. The wish to be free of national jurisdictions (the ideal of free global capital movement) takes capital into a world in which, by

rendering national economic boundaries ineffective, no movement is possible unless the profit to be had or the value to be gained from its movement derives from real economic events, as distinct from the accidents, manipulations and discrepancies consequent on there being over 170 national currencies in this the 21st century.

But whence comes real value in an interdependent world? From playing one's part in it, not seeking to be independent of it. From using capital to finance the means of production (the physical kind, of course, but also most importantly the 'weightless' variety), not from capital leading a life of its own. Capital that seeks to be liquid is at most a moment in time, an occasional possibility that arises when capital comes out of one investment and before it goes into the next.

But this cannot be a state of being. In reality, uninvested capital, liquid capital, is a contradiction in terms. It is cash and cash earns nothing. The return to capital in an interdependent world cannot come from abstracting itself from that world. The more of-a-piece the world economy becomes, the more will we see that abstracted capital (because it is really cash) has zero value, not increased value.

The question will then become (if it is not already): In what does the value of money or capital inhere? In one's national emblem – pound, dollar, euro, etc. - or in the economy that lies behind it? But if that economy is part of an interdependent world then what is the point of a national emblem?

Well, one in particular. It could signal that the country concerned is playing its part in the world economy as a whole. It could be a symbol of accepted interdependence rather than separate independence. In other words, the problems we face are more in our minds than in our institutional structures.

One final thought for which the above provides the background. What should be done with the pound? Should it join the euro or the dollar? It need do neither. If those responsible for the British economy were to make it their policy to embed Britain in global interdependence, rather than to pretend distance from the world as a whole or to seek to be top dog within it; if they were deliberately to place on humanity's table what the British could uniquely offer to the world community (an offer that to be real would have to be reciprocated, not enforced or unilateral) – then the pound could stay the pound. Its significance would have changed, but it need not become lost.

What in reality would that mean? Mainly that the British would have to let go the notion, never wholly reliable, of being primarily a manufacturing people. Britain's economic existence derives from its worldwideness, not its physical production. Even 19th century manufacturing was a part of worldwideness, since the British neither grew the cotton they milled nor did they only sell their goods in Britain. In financial terms, if in the amorphous, monochromous world of denationalised global finance one were to look for Britain, what would one seek? The deepest, broadest and most effective pool of liquidity. A place in the world as a whole where capital was always free to come and go, to enter and exit investments. Capital that was freed from locality and tradition, to become the vehicle for global considerations and for the future to speak. Freed capital.

This more or less already exists, of course. What is the basis of the City of London otherwise? We do not use such flowery language, of course. Instead, because we inhabit a world that pretends not to be a single global economy, much and increasingly most of this business is said to be 'offshore', an inexact term that little becomes the precision needed when it comes to finance. Moreover, it is surely only a matter of time before everywhere becomes 'offshore'? Then we will simply say that finance generally should not be constrained by national jurisdictions, not even when within them. Finance belongs to the world as a whole, not to a locality. It has to bring the overall point of view to bear on the particular.

Does the pound have to lose itself in the dollar or the euro? Can it not become the representative of 'freed capital' instead? Christopher Houghton Budd is an economic historian whose focus is on international currency questions.

The pound could easily link itself to such an enterprise. It could become the name of a currency which worked within national jurisdictions as a global element, as the representative of freed capital. This it will not be able to do, however, if it disappears into either the euro or the dollar, for it is not in the histories or destinies of either the European Union or the USA to be emblematic of a single world economy in the way that Britain has become and could remain.

It is not difficult to see what would happen were the pound to become part of the euro or the dollar. One simply has to divest ones portfolio of pounds and to stop using sterling as a reference. The likely effect, albeit initially hardly noticeable, would be the loss of freed capital – first as a notion then as a fact. Conversely, the pound could be given a new lease of life if it became used to denominate investments and transactions that had freed capital as their hallmark.

Freed capital is what is needed when the fact and even the concept of a keystone currency no longer operates. It is this, not another hegemon, that can give rise to a new dynamic and give new ground to prosperity. By allowing the pound to atrophy in favour of the euro or the dollar, we risk making the world a much poorer place, impelled, moreover, to go down the path of fiat economics. But what then would our independence have given rise to?

DIARY

Evening Events in London

Thursday 13 January, 2005
A Pound for the World - Exploring a path between the dollar and the euro

Thursday 10 February, 2005
Weightless Economics - Financing the knowledge economy

Thursday 17 March, 2005
Taxation or Donation - Conscious giving as a task for the 21st century

Time: 7.30 - 9.00 p.m.
Cost: £3.50
Venue: Rudolf Steiner House
35 Park Road, London
(Tel: 0207 723 4400)

Weekend Workshops

The Colours of Money Seminar
January 14-16, 2005
Canterbury, UK

March 18-20, 2005
Canterbury, UK

The Economics of Farming
April 15-16, 2005
Stroud, UK

See www.talkingeconomics.com for details

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ARCHIVE

International Currency

John Maynard Keynes

From a Letter to Harold Nicholson, 20.11.1940.

Years ago, money was an international thing: if you had the money of one country you could change it into the money of another at a fixed rate, and you never had to think which currency you held. Exchange control changed all that: before anyone accepted payment in a controlled currency, he had to discover where he could spend it and what he could buy with it. One by one, the currencies of the world, like their national economies were becoming independent of one another.

Sterling was one of the last currencies which you could freely change into any other currency and so spend anywhere. The custom of using sterling as an international currency was generations old, all over the world: London was an unrivalled financial centre and it was the most convenient of all currencies for trade between one country and another.

When England, at the beginning of the war [World War II - Ed.] imposed some measure of exchange control, there were many who said that this was the end of the international use of sterling and of the predominant usefulness of the London financial market. Once England had accepted the territorial view of money, people in other countries could not continue to accept it without thinking: it was no longer a universal means of payment, but a means of spending money within a certain area… [Now we have] the 'area pound sterling' which is now as familiar a conception as the 'pound sterling' sans phrase which everyone knew and used before the war. The English system of exchange control does not mean that the expenditure of the 'area pound' is confined to England. 'Area pounds' can be used throughout a great part of the world. The area it covers is not a political entity, but a group of territories based on economic and financial organisation. Canada and Newfoundland, which are in the British Empire, are not in the sterling area: Egypt and Iraq are in the sterling area, but outside the Empire.

The essential point is this: that the area pound sterling can be used throughout this territory which contains vast resources of manufactured products, animal and vegetable products of every type, grown under every climate, and enormous mineral wealth. The area of the pound sterling comprises territories in every part of the world, so the 'area pound' is a good name, and lays emphasis on its most important characteristic.The area pound sterling remains in its essence, an instrument of trade which preserves to the full extent that is possible in time of war the former universality and lasting worth of the old pound sterling..

The sterling area is not merely useful; it is essential, and those who are deprived of its resources know this best.But that is not the end of the uses of the area pound. At first it seemed that it might have to be confined to expenditure within the sterling area; but events have shown that other countries, who themselves made the mistake of neglecting the economic reconstruction, have equal need of the products of the sterling area, are willing to sell their goods for area pounds. Many deals of this kind have been arranged, and the system is developing day by day.

A particular kind of money is a mere mechanism, which works well or badly. The important thing is the goods which that money will buy: the territorial division of present day economy makes this clearer than ever. The sterling area is the largest and richest of all the territories which have a controlled economy: and the area pound is a simple mechanism to make the resources of the area available to traders all over the world. When you use it, you use the long-established and smooth, reliable machinery of the City of London, which has grown up on conducting international trade on the simplest, most honourable and cheapest basis. It avoids the complications of barter and compensation, which hide the lack of resources and - too often - the juggling of prices to the organiser's benefit which lie behind them; and owing to its true usefulness and the backing of material behind it, the area pound is naturally maintaining the international position which sterling has always had. It is not sterling itself which is useful; it is the sterling area, to which it is the key, and that is necessary to all the world.

FORUM

The following extracts are taken from the ae-exchange. They focus on what is implied by the Quality Guarantee Mark for associative enterprises (see www.ae-institute.com).

Robert Karp:
My own perspectives are coloured by my experiences in the organic and sustainable agriculture movement where I work every day with a wide range of farmers and business owners and consumers and others who share a set of values that I believe could provide and many cases do provide the basis for an associative approach to trade. I feel a great responsibility and opportunity to help foster such impulses in this movement at this time. And I do not see that the path to the AE quality Guarantee Mark is something that can readily be taken up by these people at this time.Certainly however, it could have significance for my own development and ability to bring associative impulses into this movement and perhaps even into the organization for which I am responsible.

Kim Chotzen:
My experience of a 'path' toward obtaining the associative economic guarantee mark confirms what others have said recently. I have find the study of accounting to be an indispensable tool in that it makes objective the possibility to 'see' one's self in relation to another. I would love to communicate the marvel finance with its language of accounting. Instead of "Money is dirty, accounting is boring, and economics is dry and dull." My study of associative economics has shown me just the opposite: that there is magic in numbers, heightened awareness of personal responsibility in the process of accounting and hope for all in meeting as individual entrepreneurs The guidelines as laid out by the AE Institute describe this process in a scientific and systematic way, so as to avoid confusion, misinterpretation and therefore 'missing of the mark,' so to speak.

Robert Karp:
I am not yet sure how the Quality Guarantee mark fits into [my working situation]. I can see the important role that a deepened accounting and transparent bookkeeping process could play in the kind of cooperative supply chains I have described above. But it is not clear to me if you are trying to bring about real association of this kind between the different companies who gain the "mark," or whether part of the training involves helping companies learn to negotiate or facilitate new kinds of trading relationships with their suppliers or buyers or consumers? Without that kind of effort, I can't see what good it is for a few scattered companies across the world to have this Mark, unless this mark comes to mean something to someone other than the companies themselves. Otherwise, it just seems like a kind of group of disparate companies who are trying to practices certain principles internally… if you began to advertise the AE mark to consumers, telling them that companies who have it are exemplars of a whole new way of doing business and are worthy of the consumers business, that might be a different story.

Christopher Houghton Budd:
Our aim [when we started the Quality Mark] was to work towards establishing associative economics as a term as real and effective as market economics. What we mean is also a matter of spelling out a way of working - the so-called criteria - which any guarantee mark requires. To our knowledge, no-one else [interested in associative economics] has thought this a necessary thing to do, but it would be interesting to see what they came up if they set out to do so. Much of the formulation is required by the 'genius' of international law and the requirements on how guarantee mark ownersconduct themselves.

The Mark is a guarantee mark. It thus is a kind of theorem, much as, in the physical world, one has a theorem about what a certain quality of steel will consist of. As a theorem, it is a body of ideas which, taken together, enable one to act in a certain way. The Mark is intellectual property and as such has to be owned. It is owned by an association - the Associative Economics Association, based in Switzerland and England. It is not a trade mark and is thereforenot linked to products or relationships between organisations. It is much more a sign that this or that organisation is run by someone seeking to act associatively. In our day and age this will tend to come down to two things - not pushing prices down for the sake of it and not seeking to invest capital for a return in the abstract; the two are linked and we can only expect real economic change of we reverse our motivation with regard to both.

The Institute refers not to the owner of the Mark, but to the 'source' or 'place' in which we find ourselves when we (those concerned with the development of the Mark, namely those who use or would use it) meet to discuss this. One could say this is a virtual place which we name the Institute. It is not an institute in the sense of an organisation. It has no building and one cannot be a member of it.

The Mark is awarded to the organisation. In that sense it is neither linked to a person nor to a product. Alongside this there is a certificate and a diploma, which are awarded to individuals. To confuse these two would not be helpful, as Robert rightfully points out, but in fact I think they are not confused. To get the Mark, the organisation concerned needs to be managed by someone competent in associative economics in both conceptual and practical terms.

POSTSCRIPT

We hope you have enjoyed this first issue of Talking Economics Monthly and will want to share your views with us. As editors, we have written the majority of this edition and we hope thereby that you will gain a sense of our particular point of view; in future, however, we do intend to offer a greater diversity of contributions, both from readers themselves and from various writers who can highlight themes in a way that we find relevant or symptomatic. The next issue comes out in February and takes 'Weightless Economics' as its central theme.

As this edition goes to press, efforts are underway to provide relief to the millions affected by the tidal wave that struck coasts of Southern Asian countries on 26th December. This includes raising substantial sums for disaster relief and also provokes the question: 'When natural disasters strike, how is humanity to finance international relief?' An interesting sidebar on Keynes' Bancor currency proposal is the inclusion of such spending in the scheme. Through the International Currency Union, countries would have been encouraged to keep their balances of payments within set limits, whereby both excessive creditors as well as debtors would incur penalties. The interest paid on imbalances would be used as a source of income for humanitarian expenditure. He was not only seeking to balance nations through trade, but also to engender an humanity-wide source of funding, a social kind of seignorage.

Talking Economics Monthly

AN ASSOCIATIVE PERSPECTIVE ON ECONOMIC LIFE

January 2005

THE TALKING ECONOMICS PROJECT

A collaboration between Arthur Edwards and Christopher Houghton Budd, the **Talking Economics Project** provides a vehicle for associative economics to contribute to current debates in a way that has both substance and is accessible to the everyday person. Through a combination of publications, workshops and other events, **Talking Economics** seeks a shift in the language of economics such that the condition of global economy, in which 21st humanity finds itself, can be better understood.

Talking Economics Monthly

News, views, reports, analysis and comment from the perspective of associative economics. Edited by Arthur Edwards (main) and Christopher Houghton Budd (contributing), it is available in both hard and electronic editions.

Evening Events in London and Elsewhere

Open to all and based on brief introductory presentations, these gatherings provide a medium for public discussion on a wide range of topics. (see Diary, page 6)

Website

Articles, reviews, bulletin board, forums, imagery, and information about publications and events. www.talkingeconomics.com

TE Exchange

An ongoing virtual conversation bringing consciousness to the fundamental questions of economics faced by humanity today. http://finance.groups.yahoo.com/group/te-exchange/

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In addition to **Talking Economics Monthly** (produced in hard and electronic editions), a free electronic bulletin **Talking Economics Mailing** features updates, news and reflections.

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Weekend workshops and one day seminars on a range of subjects, such as money, the economics of farming and the financing of schools. (see Diary, page 6)

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