Talking Economics Monthly

AN ASSOCIATIVE PERSPECTIVE ON ECONOMIC LIFE

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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.

CONTENTS

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.

L : Labour

'Labour' is a central but misleading concept in economics because of its association with work and drudgery, as well as with the Marxist concept of the working class. It also has a bias to the physical world. 'Human activity' would be a better term because it embraces all manner of work and is without class connotations. Every human being is economically active and it is this that should rightly be placed centre-stage in economic life. Through our activity in all realms of economic life we accomplish two crucial things. We give expression to our ideas and the deeper purposes of our lives. And we act transformatively upon the earth. These twin effects are the respective basis of capital and goods. 'Division of labour' likewise needs to be understood as the manner in which human beings severally but together meet human needs. It is thus a profound social principle and not merely a dry economic category.

Why teach Young People about Personal Finance?

Wendy van den Hende

The widely influential Howard Davies Report entitled Review of Enterprise and the Economy in Education*, led the UK government to award £60 million of funding towards a schools programme designed to provide 5 days of 'enterprise education' for 14 and 15 year-olds over 2 years. Various organisations have seen a role for themselves in delivering this kind of life-skills training. One example is the Personal Finance Education Group (pfeg) that specialises in 'helping teachers to develop financial capability in young people'; according to them 'financial capability is vital for everybody if they are to plan and manage their affairs effectively. The best place to develop such skills is in schools.' The following article is a write-up of a presentation made by Wendy van den Hende, pfeg chief executive, to members of the Economic Research Council in September 2003 and reprinted with kind permission from their publication* Britain and Overseas.

Young people leaving school today enter a complex and fast changing world. They can expect to live longer than their parents and will need to match how long they want to work against the kind of life style they want in retirement. They may have a number of long term relationships with varying family structures or may join the increasing number of people who live alone. They are unlikely to have the same job throughout their life and may experience redundancy, unemployment, self-employment and retraining. In the middle years of the twentieth century many people would save and then buy. In the twenty first century the culture is to spend and repay. The emphasis is on personal responsibility and personal provision. Acquiring personal finance skills at an early age can both help people avoid the difficulties experienced through, for example, over-indebtedness, but can also enable them to participate enjoyably in society. Young people themselves recognise the importance of being financially competent. A Mori survey carried out for the Qualifications and Curriculum Authority in 1999 found that 48% of pupils surveyed thought that more should be taught in schools on managing money. This was the top answer, beating topics such as preparation for being a parent, politics and knowledge about sex.

There have always been some elements of personal finance education in schools and there have always been enthusiastic teachers who recognize the need to equip their pupils with financial skills. Examples might include linking it to work experience, budgeting for a holiday or using compound interest rates in maths. However, it is by no means guaranteed that all children will receive any personal finance education during their years at school. Financial capability now has a legitimate place within the national curriculum – primarily within citizenship and personal social and health education but also in other subjects such as maths, IT, history, geography and English. But timetables and teachers are under pressure and personal finance is forced to compete with subjects ranging from drugs and democracy to the environment.

pfeg (The Personal Finance Education Group) is a charity, which works closely with government departments, teachers, consumer bodies, the Financial Services Authority and the finance sector. Our mission is to make sure that all young people are equipped with the confidence, skills and knowledge they need in financial matters to take part fully in society. So what do we mean by a young person being financially capable? People from the finance sector often offer to go into schools – they have this belief that if they tell children about how to open a bank account, how to budget or what the stock market is about, that is all they need to do. Apart from the fact that it ignores all the work that has been done on how people learn, it is not as simple as that. Unfortunately, the attitude exists within schools too with teachers sometimes failing to address wider issues. Financial capability is not just about knowledge, for example, about knowing how to work out the APR for different credit cards, useful though this might be – it is about developing financial acumen, in this case challenging the assumptions around whether having a credit card in the first place is the right way for that individual. Too much of the personal finance teaching that goes on in schools is about the mechanics of how you do things. Of course, content and context are important but teaching should not concentrate on financial products and services in a mechanistic way.

CONTINUES OVERLEAF

EDITORIAL

This issue focuses on financial literacy and how, if it were seen as a life-skill essential for every young person, the result would surely be a stronger and more awake society. According to a 1989 report of the Organisation for Economic Cooperation and Development: 'An enterprising individual has a positive, flexible and adaptive disposition toward change… a security borne of self-confidence, and is at ease when dealing with insecurity, risks and the unknown… has the capacity to initiate creative ideas and develop them through into action in a determined manner… is able, even anxious to take responsibility and is an effective communicator, negotiator, influencer, planner and organize… is active, confident, purposeful, not passive, uncertain and dependent.'

This oft-cited text has done much to make the case for a more pronounced role for financial literacy in educational curricula. Wendy van den Hende in the main piece, 'Why Teach Young People About Personal Finance?', warns that the consequences of not doing so will be felt by those who have problems managing their finances in terms of work effectiveness and personal happiness. In 'Concerning Financial Literacy', Christopher Houghton Budd asks whether budgets and accounts are abstract assemblages of dry information and dead statistics or whether they contain more significant information, not to be gleaned from a mere egotistical reading. Signs of the Times quotes from a piece entitled 'When will the US own up?' to highlight the need for self-aware financial conduct on a global level. For Aidan Ward introducing 'Fair Money', there is more to financial literacy than being a competent but passive user of financial services. To become a 'financial citizen' one must be actively literate. Daniel Osmer proposes a Financial Driving License for the young. Arthur Edwards reports on a Network Project conference entitled 'Stewardship into Ownership' that took place recently at the London School of Economics. In Accountant's Corner, D'Arcy Mackenzie describes what real 'accountability' must entail.

CONTINUED FROM OVERLEAF

Financially competent young people would demonstrate a questioning approach, challenging many of the assumptions that govern the way society conducts itself. They would feel confident about the jargon used around financial services and feel confident about their ability to use financial information. They would know how to access information and be able to identify when they would need, and where they would be likely to find, advice. Each person would have identified their own attitude to risk and developed an understanding of how this would influence their financial decision making.

Financial capability is about what you are able to do and how you do it, not about what you know. The Department for Education and Skills produced guidance on Financial Capability through Personal Finance Education (DfEE 2000) setting out the three interrelated themes: *financial knowledge and understanding* – the nature of money and insight into its functions and uses; *financial skills and competence* – being able to apply knowledge and understanding across a range of contexts, confidence and effectiveness; *financial responsibility* – wider impact at a greater societal level with social and ethical dimensions.

However **pfeg** would also add *financial enterprise* accepting that it has a key role to play in developing financial capability, in particular the capability to handle uncertainty and respond positively to change, to create and implement new ideas and new ways of doing things, to make reasonable risk/reward assessments and act upon them in one's personal and working life.
How should financial capability look in practice? Good practice in personal finance education will comply with Ofsted criteria for teaching and learning and will include: recognition that people from other cultures may experience the financial world differently; structures to enable young people to be prepared to make informed and independent decisions in the future, looking at adult needs, wants and priorities; lessons that are interactive, rooted in the experiences of the pupils and are relevant to them; involvement of a wide range of contributing organisations, such as banks, building societies, credit unions and Citizens' Advice Bureaux; opportunities to make sense of the links between the personal, business and national levels.

Representatives from the finance sector can make very valuable contributions to the development of financial capability. In addition to their expertise, they bring in the realism of their organisational networks and provide a model of how social responsibility policies can work in practice. Learning about personal financial issues does not take place solely within the classroom. Parents, other adults and young people's peer groups all have an important role to play. Children and young people bring a wealth of experience and knowledge with them.

pfeg recognises that for many teachers personal finance education is outside their comfort zone. They lack, or think they lack, the confidence and the competence to teach it. **pfeg** has been running innovative pilot projects over the last five years to create a critical mass of schools that integrate financial education into their school plans in a coherent and systematic way. One of the main benefits of the pilot works is the large number of examples of how teachers can get across the subject in an interesting and challenging way that engages children and young people. **pfeg** school advisers have worked with over 300 individual schools to show how it can be done.

Pfeg believes everyone needs financial education regardless of socio-economic background or ability levels, those with special needs as well as those who are exceptionally able. Coming from an economically secure background does not necessarily equate to having financial skills and indeed children from wealthy homes are often protected from picking up financial information, whereas those from less economically advantaged households may have superior budgeting skills and be more aware of value for money.

The consequences of not teaching children personal finance skills are not optimistic. Those who are experiencing problems managing their finances will be less effective at work, relationships will suffer, and debt will spiral out of control. Personal unhappiness will result in addition to the effect upon the national economy. Rather than add to the number of financially illiterate adults, let us seize the opportunity to invest in the future – after all we have a captive audience at school. Like any skill, the earlier you start, the better. Getting a firm foundation, learning the language and building on skills and knowledge will lead to young people leaving school as independent, informed and discriminating consumers.

*The View from Rare Albion**

A column by Christopher Houghton Budd

Concerning Financial Literacy

When we read financially, what are we reading? What is our vocabulary and what is our grammar? Financial literacy can mean no more than knowing the external aspect of accounting and the techniques of financial economics in order only to estimate the profit potential of an activity, the use we can make of it to serve our own, mainly pecuniary, ends. For this, any number of courses exist that train the mind to read in financial terms – but what one reads, while doubtless correct, can be superficial and myopic.

Are budgets and accounts, for example, merely abstract assemblages of dry information and dead statistics? Or do they represent, respectively, the path we are about to tread and the journey we have so far made? Is the income statement merely a record of profitability or an exact description of our relationship to the world? Is the balance sheet simply a cumulative account of net worth or does it reveal where we are in regard to our deeper purposes in life? When we read finances are we just kings in our counting houses or are we divining our deeper connections to society, our reasons for being?

The superficial level of reading is essentially egotistical, intended to do no more than make visible what one is getting out of economic life and to increase the efficiency of doing so. This, however, will lead to the mechanisation of economic life, as rule-based techniques pass from being a way of reading to a way of making things happen. At a deeper level, however, financial literacy calls on us to perceive what we are giving to society, and to make that more effective also. As we learn to read financially, so we also learn to write financially, to inscribe into the economic life our particular signatures, the unique contribution we would make. But thereby we make ourselves instruments of service. Superficial literacy, on the other hand, makes economic processes slave to our egotism.

Furthermore, how do we teach financial literacy? Do we merely prepare the minds of the young to focus on their own net worth, rather than society's well-being? Do we acquaint them with computer accounting programmes that conceal rather than reveal the subtle processes of accounting, let alone their link to our moral disposition? Or do we remind them of the long evolution of accounting and the orientation it can give us in an otherwise directionless world? Do we pretend that numbers are mere figures, or do we show how they are hieroglyphs that plot our relationship to ourselves and to one another?

For many people, financial literacy is only about stocks and shares, how mortgages work and accustoming people to the use of credit cards. It could however be about meeting human needs through what we do, and about realising our destinies in the process. Or, indeed, about realising our destinies through the medium of serving others. This does not spell absence of profit, but gives profit an inherent social purpose as the measure of how well both things have been accomplished – the satisfaction of material needs and the fulfilment of life purposes.

It is undoubtedly easier to use rather than serve the economic life of our times, to take rather than to give (which is not the same as taking first then giving back later!). But thereby we slide into disinterest and lose the will to be concerned about the untoward aspects of modern economic life, let alone the will to do anything about them. We lose our bearings and our uprightness. But in losing these, we lose our ability to be human as regards economic life and to act in a human way.

* The column takes its name from a book by the same name in which the human being learns to take the point of view of humanity as a whole: *Rare Albion – The Further Adventures of a Wizard from Oz, A Monetary Allegory*. Christopher Houghton Budd, New Economy Publications, Canterbury, 2005, available from cfae.biz/publications.

SIGNS OF THE TIMES

When will the US own up?

In a posting in the investor newsletter *Prudent Bear* (26/9/05), Morgan Stanley economist, Stephen Roach, asked who is to blame for the imbalances of the US economy and the world as a whole: Americans cast the blame outside themselves when they should take ownership of their actions and their effects in the world.

"America's record 71% consumption share of GDP [is] an outgrowth of conscious choices made by responsible adults...

"Open-ended federal budget deficits, …multi-year tax cuts, ….supply-side theories that presume such stimulus packages are self-financing. The Congress and the White House come together each year in setting the budget for the Federal government…

"Two monstrous asset bubbles in the short span of only five years… A Fed-induced asset economy is a breeding ground for global imbalances…

"America's large bilateral trade deficit with China? …lacking in domestic saving, the US has consciously elected to import foreign saving in order to maintain rapid economic growth… If America doesn't want to run a trade deficit … it needs to get its saving position in order.

"America is to blame in shaping its own destiny. Sadly, that destiny is now manifested in the form of record excesses… Like it or not, the United States deserves a disproportionate share of the blame for global imbalances.

"For financial markets, the implications are profound: The longer [things continue as they are] the more the imbalances will build, and the greater the likelihood of a hard landing… America's failure to own up to its major role in fostering global imbalances is especially disturbing. …lack of leadership in resolving global imbalances is hardly commensurate with its dominant position in the world economy."

FEATURE

Concerning Fair Money and Payment Clubs

Aidan Ward

Fair Money *is an organisation that works to 'encourage practical financial literacy and sustainable communities'. Its 'Payments Clubs' project is aimed at the financially excluded or those on the margins and uses the idea that financial literacy consists not just in being able to make use of ready-made financial services but to take hold of one's financial agenda such that one becomes an actively discriminating financial citizen.*

Fair Money was set up following an Ethics Forum convened by the Financial Services Authority. (The UK government has a programme for financial inclusion and is keen to improve the financial literacy of people who do not access mainstream financial services.) As professionals in the financial services arena, and having studied the working of the system for many years, Fair Money are dedicated to meaningful reform. Our programme of action includes initiating 'payment clubs', a collaborative way of taking control of the economic implications of spending money.

As a first result of improved financial literacy, payment clubs arise on a local basis and in an organic way. In turn they offer a place where financial literacy is acquired. Having set out to develop an alternative service model for financial services, that would meet people's financial needs rather than the sales needs of the industry, we understood rather quickly that most financial products could be bought at a much better price by avoiding the retail overhead which can be as much as 80% of the cost of a product. So, for example, the retail cost of life assurance can often be five times its cost as part of an institutional deal. We had an early view of the systemic nature of the problem by seeing that the retail overhead is largely subsumed in applying and regulating a pressure sales process that consumers loathe.

Our second insight was that, for the people *Fair Money* sets out to help, bank accounts are in many ways the lynchpins of the poor service system they are exposed to. Yet the government is encouraging high street banks to get more people into bank accounts – to enhance control over centralized payments (and correction of errors). The result is banks acting as *de facto* enforcers of government policy even though the evidence from a recent National Consumer Council (NCC) report is that the people concerned manage their limited funds less well when they have bank accounts. We decided that the crucial issue was the ability of the consumer (and their transaction partners: government and service providers) to use electronic transactions.

Perhaps the third and last cameo here is pensions. There is a well known and huge pensions gap between people's projected need for retirement income and the provision made by anyone for this need. (*The Guardian* quotes a figure for this autumn of £130Bn.) A recent *Which?* campaign report states that people simply do not trust the financial services industry and the abstract instruments it uses to provide for their retirement. But it would seem that while the industry was insensitive to customer needs, the problem was that their economic models were seriously flawed and blind to real risk.

Fair Money's new financial literacy (a term which in its original form encompasses both the techniques of reading and writing as well comprehension of what's being read) has a *concepts* perspective and a *skills* perspective. Skills are ultimately useless if the concepts they are founded on are false and the concepts are useless if they do not support the learning of practical skills. *Fair Money* set out to embed the appropriate concepts in the idea of a payments club, and took the view that people would pick up the skills they needed as they went along. Examples of appropriate concepts are:

· Economics, as the care of the household and the local economy and environment, is social, not exclusively individual.
· Automation should serve citizens' resource management needs
· Consumer intelligence is for sharing.

The opposite of literacy is ignorance and fear. For example, many financial products are sold by evoking fear, and easy comparison between products is frustrated by the techniques of confusion marketing. Most insurance is sold by exaggerating the risk, while comparing the cost of credit cards is almost impossible. Fear feeds off ignorance. So the more ignorance among buyers the more salesmen can do fear-based selling. Little attention is paid to what the product actually does. Its sole purpose is to alleviate the fear of not having it. There is no evidence that the industry wants to see literate consumers, and actually fear is at the heart of what happens when resources and power accumulate.

Spending money is like voting. Since power in our society is founded directly on money, to spend money with an organisation is directly to increase its power. To be a responsible financial citizen is to spend money in ways that do not exacerbate the problems in society that we are concerned about. The role of financial literacy is to understand the ways in which economics works at this level so that citizenship can be exercised.

So what does a financially literate environment look like? First it is a visual environment – imagine money-containing jam jars on the mantelpiece – in which I can see where I am with my money. Secondly, it is completely under my control, as if it were cash in my pocket. I say what moves and nothing moves without my say-so – something that is a lot more radical than it sounds at first. Thirdly, making mutual micro-loans or pooling cash flow to avoid problems becomes straightforward. A club of people who trust each other can go a long way towards stabilising each other's cash flow just to avoid unnecessary costs across the club. Fourthly, the club is a platform for negotiating proper deals and waste reduction with suppliers, just as enterprises rationalise their supply chain.

The last two points are about encouraging people to improve their situation by taking the initiative. Conventional service models on the other hand are about abdicating rather than assuming responsibility. To see this we need to see the effect products actually have on literacy: do people become more informed and pro-active or do they find it easier just to ignore the real impact of their choices? An exception to this is the radicalisation that sometimes happens when people realise they have been duped. Market research always shows that people cannot be bothered to do things for themselves, but research from other perspectives shows that people want to reassume control when it is worth their while to do so.

Let's pursue for a moment the image of jam jars. Traditional budgeting allocates cash income to jam jars on the mantelpiece: a quasi-physical process by which we understand the distribution of income against future needs and expenses, and a visual check that money does indeed exist in the relevant jars at the relevant time. Lack is felt directly and visually: when the food or the rent jam jar is empty there are difficult choices to make. Modern consumers have a more difficult set of trade-offs. They get variable costs according to how and when they pay (for instance, direct debit discounts), and hence have an even greater need to be able to visualise the implications of allocation and spending decisions. Those aspects of finance that make these decisions more remote and more conceptual disadvantage people for whom these are actually crunch points. The financially excluded have had their last crutch kicked away and been forced to become agents of their own future. They are being forced to become literate, but in ways they must invent for themselves because of the failure of society to treat them with dignity and respect.

The club idea is one where people are not trained to access traditional financial services the way they are intended to be used, but one where people develop their own understanding of economics and what works. For instance, if people want to make sure they have money to spend when they are old, will they deposit money with a "pensions provider" or will they build up a stake in a thriving local economy to make sure there is money being generated when it is required?

We have been led to think that the individual is the unit of financial salvation; that it is each man for himself. This is untrue in two important ways. The majority of people in the group under consideration have multiple part time jobs, self-employment, and multiple benefits, and are part of a family and a household where these last are not necessarily the same thing. These things are a complex web of interdependency and an accounting nightmare, but trust – in the sense that the group has the individuals' known best interests at heart – must be maintained and increased if they are to be sources of support. It is also clear from the work we have done looking at our own and others' attitudes to money that because of fear and alienated attitudes it is easier to look sensibly at someone else's financial situation than at one's own. So mutual support in taming demons is vital.

A different set of values and purposes within which people's interests can be understood with less contradiction is available to such a club. People can debate what is really a need and where value is really to be found without looking for answers from providers. But this alternative view needs to be maintained in the face of huge pressure to conform to the existing system. The question for *Fair Money* is whether, when people have understood that their crutches have gone, they have the appetite for a different sort of behaviour.

The crucial feature of the system as we know it – the system dominated by conventional financial literacy – is the 'accumulation' of assets. For people within the conventional system, 'saving money' is a prudent thing to do. However, we are in a time and a political situation when it is clear that this can be a disastrous strategy. No matter whether money is stored in the mattress, 'invested' in the stock market or in government bonds, it can disappear overnight.

When a payment club is successful enough that its members can move beyond subsistence to having disposable income individually and as a group, the question is this: are people looking for ways in which that money can generate real economic activity (as per the new literacy) or will they ape the old system and try to hoard their money or spend it on status goods (as per the old literacy)?

The system as it stands pushes the great majority into what is essentially wage slavery – the old literacy's inevitable trap as the poor get poorer and their remaining assets are expropriated by the financial world. Payment clubs are a version of an escape from such slavery into a more considered version of where our interests might lie.

> *The* Fair Money *definition of financial literacy has little to do with a person's IQ or level of numeracy. There are many people with degrees and doctorates, and any number of professional qualifications, that have been hoodwinked or taken advantage of by the sales representatives of banks, insurance companies, utilities providers, distributors of electrical goods etc. Indeed, the lack of effective literacy in all sections of society is underlined by the prevalence of what many people regard as exploitative business practices.*
>
> *Furthermore, for those who wish to take action, just simply engaging with a provider of goods or services is often very difficult, with an increasing trend for shop or branch closures, automated telephone systems and 'non-customer-facing employees'. For the provision of goods and services to be efficient there needs to be effective collaboration between customers and providers to eliminate waste but the potential for genuine two-way dialogue is quickly disappearing. Simply witness the mushrooming growth of companies willing to act as intermediaries to administer complaints about missold endowments.*
>
> *What is more, wherever regulation is present it is often unhelpful, offers little protection to the consumer and creates an additional layer of cost. It seems that rather than protecting the best interests of all consumers, regulation now simply amounts to preventing the worst excesses of a market that cannot drive customer value because literacy levels are too low.*

DIARY

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Talking Economics Evenings
Star Anise Arts Café, Stroud, UK (£3.50)
Mon 12 Dec, 7- 9 pm
Gold and Beyond - What Underpins Money?
Mon 9 Jan, 7- 9 pm
Accounting for One's Action
Mon 6 Feb, 7- 9 pm
Debt and Human Development
Mon 6 Mar, 7- 9 pm
Whither Fair Trade?

For details of all above events:
info@talkingeconomics.com
01227 738207 or 01452 810764

CONTRIBUTORS

Wendy van den Hende is chief executive of pfeg, a registered charity.
Arthur Edwards lives near Stroud, England and edits Talking Economics Monthly.
Christopher Houghton Budd is an economic historian living near Canterbury in the UK.
Aidan Ward is a director of Antelope Projects, a UK based consultancy specialising in business risk management and supply chain assurance.
Daniel Osmer works from Sebastopol, USA, as a real estate professional.
D'Arcy MacKenzie works as an accountant in Canada.

COMMENT

A Financial Drivers Licence for Youth

Daniel Osmer

The idea of the Financial Drivers Licence is to give young adults the means to steer their own life through an increased awareness of the economic and financial 'rules of the road'.

The phrase Financial Drivers Licence (FDL) first occurred to me in the late 1990s while listening to the description of a financial literacy workshop for inner city students in Baltimore, Maryland. I could see for the first time that a proper understanding of economics and finance is directly related to the ability of young adults to develop their abilities and fully meet their destiny in the world. Just as obtaining a licence to drive a car at age 16 has become a teenage 'rite-of-passage', so too could a 'financial' licence help a young person to learn to steer his/her own life in today's monetised world. Such a training would help students begin to find equilibrium and a true perception of their own interests, talents, and place in the world. It is intended for young people at the threshold of stepping out into the world with their unique destinies and contributions.

Adolescence is a critical time when disequilibria and confusion is the rule. Questions of who am I, what will I do in the world, and who will I work with in the future, begin to emerge. Above all, young adults are beginning the process of determining their place in the world and finding their voice. The premise of the Financial Drivers Licence is that the human being's innate creative capacities are at the centre of economics, its very heart and soul. Production and consumption left to themselves, create inequalities and require conscious human intervention in order to bring about equilibrium. From one perspective, economic life is about meeting human needs (consumption) through developing and applying one's talents and capacities (production). It is the accurate perception of this exchange and circulation by human beings (distribution) that brings equilibrium, the emerging individual needs to learn how to bring equilibrium into his relationship with the world as well as with himself. Just as economic regulation is a task of perception, so too is the self-regulation of the adolescent. The more accurate the perception of the world and one's place in it, the more equilibrium comes into play when trying to meet one's destiny and find one's task in life. Here, the words of Martin Luther King come to mind: "All men and women are caught in an inescapable network of mutuality, tied in a single garment of destiny. Whatever affects one directly affects all indirectly. I can never be what I ought to be until you are what you ought to be, and you can never be what you ought to be until I am what I ought to be." In high school, understanding economics and finance through visual art and money science can stimulate both imaginative mobile thinking as well as objective universal precision. This can lead to a new and increasingly accurate perception of the economic world pupils will soon be entering. Practical projects, financial plans, field trips to local enterprises, lead to a real connection with modern economic and financial life. This new perceptive possibility can be aimed at the future for the purpose of finding one's own task on earth out of one's unique talents and gifts unfolding. During adolescence that future impulses begin to assert themselves in the young person's soul.

Alongside the Enron, WorldCom, and Arthur Andersen scandals, another drama has been slowly unfolding in America. In April 2002, the *Journal of Accountancy* carried an article entitled, 'The Crisis in Accounting Education', which documented the dramatic decline in the relevance and quality of accounting education. The author condemned the current accounting education structure, saying: "Technology, globalization and other factors have contributed to the need to prepare students differently. Newer programs, newer approaches to delivery and content that emphasize cooperative learning, field trips, interaction with professionals, and a learning-by-doing approach are needed." Similar stories about economics education around the world are also expressing concern at the lack of openness toward taking a fresh look at economics and accounting. Key to such a review, but key also to teaching financial literacy to young people, is the practice of double entry bookkeeping. As what could well become the most commonly used language in the world, double entry bookkeeping allows access to a means of transforming economic life into a world that works for everyone. As well as helping to orient the individual, it provides an objective and informative framework for the shared discipline of an entire group committed to a shared intent. Double entry bookkeeping and its products – financial statements and plan – provide the tools for overcoming one of the greatest challenges facing humanity today: to be accountable for our individual and collective impact on each other and the world around us.

REPORT

Capital: Bad Master but Good Servant

Arthur Edwards

Under the heading ‘From Ownership into Stewardship’, a conference hosted by the Network Project was held at the London School of Economics on 19th November 2005. The Network Project is a group representing the value system that gave rise to the labour movement but now confesses openly the absence of any unifying ideology through which such values can be clothed in policies. It brings together thinkers from different fields to rethink key themes of our times and aspires to create listening and learning events. In the words of Rosamond Stock, the project co-ordinator: “Ideas do things…What a conference can do is bring people and ideas together and, by presenting them within a single framework, enable us to see the connections, and perhaps an overall direction in what we are thinking. It lets us know that others are thinking some of the same things we are; it provides us with some useful extra arguments we might not have thought of ourselves; it brings evidence to bear from other people’s experience… The external (usually material) environment and human society are, in most cultures, part of a seamless whole. Western culture separates them but we still use the same basic model: the world as a collection of atomised ‘things’, things that are there to be picked up and used. As a result, we look at individual things or people and not at the ties between them. Human beings are bounded by their skins, our property is bounded within a fence or barrier, the world is enclosed. And because we don’t think about the ties between us, we tend not to see the obligations that arise from them. And this bounded-object-which-can-be-appropriated model of ownership has become the off-the-shelf tool for dealing with just about any problem – from NHS services to pensions.” In this report the focus is on the nature of capital.

The participants’ perspectives ranged from Genesis 1:28 in the Bible, to section 1.5.7 of Britain’s September 2005 Ofcom report on the Communications Market. The former has been used to establish the divine and therefore legal sovereignty of Adam and Eve’s dominion on earth, which is then traced through the sons of Noah and the Three Kings to the New Testament. The latter points to the principle of market dominion in the example of ownership of radio spectra: “In order to allow market forces to decide on the best possible use of spectrum, auctions need to be combined with liberalisation and trading.” Of particular interest to TEM readers was the manner in which Ian Brown, the first speaker, described the origin of the neo-liberal agenda, which, he asserted, did not just happen but was a highly organised affair that originated in a 1949 meeting in Switzerland, led to the founding of the Institute for Economic Affairs in 1953, and by 1986 had given rise to 30 think tanks in 17 countries, whose influence on government policy is now absolutely pervasive. But one should not think that this is any kind of mass movement; according to Brown, these organisations employed only 500 people worldwide. He traced the intellectual pedigree of their thinking to a selective reading of David Hume and Adam Smith which emphasises the limited concern of the individual for the interests of others and then elevates the unintentional spontaneous order that we know today as the market to a high moral principle that guarantees liberty and ensures justice better than any other. In asking whether this analysis could not be improved upon by re-introducing the notion of partnership he threw down the intellectual gauntlet to anyone who would do so, to match the coherence of neo-liberal thinking and political practice. Those wishing to effect social change need to pay close attention to the strength and coherence of the ideas on which they build.

The day was an inspiring one, in its whole direction and in its parts, which in itself is an achievement, given the propensity of academic economics to deaden the soul. While several speakers illustrated the failings of global business and the demand for a ‘democratic solution’ to the ‘economic problem’ of corporate globalisation, some gave examples from their own experience of how to construct a more valid business model. Humanity’s inability to go beyond neo-liberalism, not just in theory but in one’s own conduct, constitutes an intellectual and spiritual impotence which leaves the human being in thrall to current practice. The insight, for example, that capital has liberated itself from all external constraints, while maintaining the ability to levy tribute is perhaps better understood as pointing to the need to reconnect capital with initiative, rather than as a failing of the state to govern it – something that anyway stands to be anachronistic in the 21st century. Given that this task is best done by individuals out of their sense of social responsibility, the comment of Mark Hayes (Northumbria University, former MD Shared Interest) that “capital is a bad master but a good servant” captured well the kind of thinking needed if the economy is to be given meaningful direction from within each individual human being.

ACCOUNTANT’S CORNER

Accountability

‘Accountability’ entails responsibility and the ability to explain. The accounting profession and most accountants take their responsibilities very seriously, as they understand that the integrity of their work is very important to owners, investors, employees, bankers, regulators, etc., all of whom rely on financial information in their work and decision making. But, as accounting and financial statement presentation have become increasingly complex, it has become more difficult to make the financial statements understandable to a wide audience.

The ability to read basic financial statements is a skill – understanding the link between the income statement and the balance sheet, appreciating the distinction between market values and historic cost amounts on the balance sheet, recognizing that accounting results are dependent on accounting convention and assumptions, etc. Accountants use the notes to the financial statements to help the reader understand the complexities, and in many instances the notes run on for pages. A lot of times accountants are trying to be very precise about the details and the complexity and to an extent, the harder they try, the more difficult it can become to understand their meaning. In their efforts to be responsible, their explanations can become less easy to understand.

This results in narrow specialization on the part of accountants and analysts, who focus on individual companies or industries. Another outcome is stricter rules for accounting, with tough penalties for non-compliance to ensure integrity of financial information and a sense of confidence by the public. But is this the appropriate response? Accounting is by its nature closer to a language than to science. The way to address the issue of increasing complexity is, therefore, to be able to talk about financial statements in a meaningful way to interested parties, for example, at an Annual General Meeting.

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AIR MAIL

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.

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ADDRESS
Forge House, The Green, Chartham, Canterbury CT4 7JW, England
TELEPHONE & FAX
0044 (0) 1227 738207
WEBSITE
www.talkingeconomics.com
EMAIL
editor@talkingeconomics.com
DATA PROTECTION
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