

Udo Herrmannstorfer

Pseudo Market Economy

Labour, Land, Capital
and the Globalisation of the Economy

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edited by Dr. Christoph Strawe

Translation: Carol Bergin, Julia Kramer, Prof. Dr. Hellmut Fischmeister,
Johannes Lauterbach and Ulrich Morgenthaler

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Preface to the Internet Publication in the English language, 2009

The book presented here was published originally in 1991 immediately after the breakdown of state socialism. An extended version was then published in 1997, as the neoliberally powered form of globalisation began to dominate development. Distribution was limited to the German speaking public; despite the fact that the publisher believes that it is one of the most important publications in the last decades to tackle the root causes of social crises and questions of social renewal; so it only enjoyed limited availability for the beginning of the global civil society's' discussion on alternatives, which began in 1999.

The translation into the English language has been long overdue. Efforts to undertake this since 1999 continually met with obstacles. All the more gratitude to all those who have been involved, that it has at last become possible. What was written by the author about the relationship between the 3rd revised edition from 1997 and the original 1991 version, is perhaps more pertinent for the present English edition to the original: "[...] In this respect, the remarks of this book are even more up-to-date than at the time of its initial appearance, even if the conditions are constantly changing."¹ This applies to such themes as unemployment, social security, the development of the European Union, and much more besides.

The accurateness of Herrmannstorfer's analysis is shown most clearly in the present global finance crisis, which has begun to expand to a crisis of the whole economy. "To keep intact the illusion of monetary proliferation without social responsibility, new forms of capital investment are continuously being developed and offered, 'slammed into the market'..."² At the time this sentence was written few contemporaries even knew the term "derivates", let alone imagine the extent to which the derivate-market would expand and the resulting catastrophes. The connections between the financial crisis and the mortgage crisis can also become better understood through this text.

Later generations will find it difficult to understand that critical texts such as this, containing constructive suggestions as to how to create dynamically sustained monetary stability could have been so widely ignored. They will also be astonished that, at least temporarily, the disillusionment that occurred after the debacle did not lead to the taking up of such suggestions. At present it unfortunately looks rather as if attempts are being made to rectify the mistakes of the past with the mistakes of the long-past - mistakes that were also analysed in this book.

Where the market failed, the state should attempt to rectify things, but please, without a thoroughly new legal framework for the economy, through for instance new forms of ownership. The economy itself should remain on a pure free-market track. The anthropological paradigm behind the concept of the free-market, the image of "homo economicus" as an egoist who is only seeking to maximize his advantage is hardly questioned at all, **as** is the contradiction of the image to **the** "objective altruism" in the division of labour.

This book proposes rather the necessity of a thorough renewal of the economy, a shaping of the markets through associative settlements between the business partners, without turning into a state-directed economy - and thus shows a way out of the previous circuit of state failure and market failure. According to the author, in order that mature citizens worldwide take hold of the responsibility of shaping their social relationships, it is not continuing oscillation

1 See preface for the third edition.

2 See chapter on money.

between neoliberalism and statism that is needed, rather the need to form relationships anew between the economic-, state- and cultural sectors.

To smother reality with pre-fixed programmes is the last thing the author wants. His concern are the living versatile ideas, with the help of which the reader can gather answers and find creative approaches that the author does not wish to presuppose or dictate. Through illustrating examples and giving specific suggestions, the author wishes only to show that it is possible to find concrete sustainable solutions for the problems if one really wants to find them.

Herrmannstorfer follows the approach of Rudolf Steiner, to whom he often refers, and who thought it important to emphasise that pre-packaged social solutions are no longer relevant for our time. What is far more needed is an understanding of the structures that allow people, in each specific case, to find solutions by working together. These solutions will naturally vary, according to the land or continent in which they are decided upon. The solution of the land question would have to be different in a land where most of the land belongs to a small group of large-scale landowners, from a land where there is a wider scattering of land-ownership. Establishing new monetary structures could vary considerably between countries with hard currency and those with galloping inflation.

We would ask the reader to take into consideration the fact that the suggestions in the book as far as the legal details are concerned, for instance in connection with the question of land, were tailored mainly to the conditions in Germany and Switzerland.

It would surely be desirable to extend the presentation with regard to the developments since 1997, including new numerical data. This is unfortunately not possible due to the workloads of those involved. Nonetheless readers can find numerical data themselves today, with the help of the internet, or through newer books on the global financial and economic crisis, etc.

In the English version an addendum is given, in an effort to at least indicate directions in which the suggestions given in the book could be varied to meet the specific situations outside of Europe, and be made fruitful for countries, for instance in the Southern Hemisphere. Included are Herrmannstorfer's theses developed for a conference at the University of Trier in 2002 on „Conceptual Building Blocks for a Human and Just Globalisation“, which were translated into English some time ago. They deal with the land question, our use of resources, and the theme of „donations and development“.

In the area of agriculture, the authors' approach has also shown its value in global civil society's alternative discussion. Herrmannstorfer had already, in 1994, written a paper „Wie weiter mit der Landwirtschaft?“ (Whats the next step in Agriculture?), showing the way towards an associative economy and warning about the WTO agreements. Nicanor Perlas and Christoph Strawe took up this approach in 2003 and on the basis of the failed WTO conference in Cancun presented a set of suggestions under the title: „Farming after Cancun“ that are still important for the situation today.³

The very demanding translation work, with only minimal funding available, was selflessly undertaken by a team of friends: Carol Bergin, Julia Kramer, Prof. Dr. Hellmut Fischmeister, Johannes Lauterbach and Ulrich Morgenthaler.⁴ Responsible for the editing work were: Carol Bergin, Hellmut Fischmeister and Christoph Strawe.

The German language often allows terms that partially lose their meaning when translated in a literal manner. When in doubt whether to take the more literal version or try to maintain the sense of the text, we have chosen the latter. The text remains the same apart from a few

3 http://www.globenet3.org/Features/Feature_Farming_After_Cancun.shtml

minor changes where the meaning was no longer understandable or had become irrelevant. (Figures given in German Marks have been transferred into Euro) Publisher's notes are identified as such.

Due to the complexity of the text and the fact that there was only one „native speaker“ involved, we are only too aware of the remaining imperfections, and that the quality of the translation is not always at the same standard. We therefore consider this effort to be a „work in progress“ and would be grateful for any editing suggestions that readers may send.

We wish to express our gratitude to the Verlag Freies Geistesleben in Stuttgart for their willingness to allow the internet publication. At the same time we would like to point out that the full copyright lies with the publishing company. It is necessary to obtain a license from the publisher in the event of commercial use of the translation; e.g. an English printed version which would be highly welcomed. We hope that the internet-publication can support the spreading of the text in the English speaking world and thus strengthen the movement for solidarity economies and support the shaping of a more humane globalisation.

Stuttgart, February 2009

Christoph Strawe

Preface to the 3. Edition

When the book *Pseudo Market Economy (Schein-Marktwirtschaft)* was published in 1991, the attention of the world was on the upheavals in Eastern Europe. With the collapse of socialism, it was believed that the main obstacle to worldwide peace and prosperity had been eliminated. However the Yugoslavian conflict which broke out in Europe shortly thereafter highlighted once again in a shocking manner - as the two world wars had already done - that in this day and age, living together as mixed populations in a centralized state based on nationality and territory is not possible. As long as states continue controlling the spiritual and cultural lives of their citizens and institutions by majority rule, the desire of minorities for political independence will not decrease. This means dismantling, rather than extending, the authority of the state in these matters. Peace is not just the absence of war, but first and foremost a question of becoming actively capable of achieving peaceful means of cohabitation. The call for neutrality of the state is not only in the realm of external relations, but increasingly also in its' inner constitution. The partisanship of the state for certain spiritual or even non-spiritual beliefs means oppression of minorities, which today each mature individual can become, and thus leads to a constant threat of inner peace.

The situation is similar with the concept of prosperity. The global triumph of market economy sweeping away all trade barriers has not led to the promised improvement of the living conditions of all social groups, but to social division. Unemployment and loss of social independence with simultaneous while at the same time the state coffers are emptying, have increased to an extent, that the entire fabric of society is brought into question. (keyword: reconstruction or rather dismantling of the welfare state), while the stock exchange courses are skyrocketing. Although the resentment over such a development grows amongst those concerned, the prescription generally promoted for the solution of these problems is outdated: growth through increasing international competitiveness. However one will need reach a new understanding that the economy can achieve its societal task and thus its peacekeeping mission not through more competition, but only through intensive associative cooperation.. In contrast to this an economy that is not connected to the living conditions of all people, destroys the social peace and the democratic foundations of our society. But it is precisely the existence of such conditions which gives the economy its opportunities for development.

Cooperation from the viewpoint of social responsibility makes it imperative to rearrange the legal positions of those participating in economic life. In this respect, the remarks of this book are even more up-to-date than at the time of its initial appearance, even if the conditions are constantly changing. Therefore in the new edition a contribution was inserted which is concerned, at least in outline, with the "globalization of economy", to belong to which is regarded as the goal of all efforts and which is simultaneously considered as the cause of all social problems. For the same reason, a discourse on the question of unemployment was added to the chapter on "fundamental social law", devoted to human labour.

Dornach, June 1997

Udo Herrmannstorfer

Economic Globalisation

Parallel to the fall of the communist Eastern block, and freed from their potential ideological and military threat, the merging of the national economic markets into one global market, long planned for in the West experienced an acceleration. The call for change, included in the first edition of this book, was hardly noticed. Since then however many people have woken up, not voluntarily, but through being directly affected. In the following some of the central aspects of globalisation will be discussed, in order to connect the concerns of this book with present day developments.

The European Single Market

One important step on the way to globalisation was the completion of the European Single Market. The president of the European commission, Jacques Delors, was able to launch the now famous Delors-plan at a time when the momentum for the whole post-war re-building of the European community had become bogged down between different interest groups. This plan contained 200 important points which were to be clarified between the partner States and - this was to play the decisive role - a deadline for completion was given: By 1.1.1993 the „European Single Market“, totally customs free, an economy with a limitless market, was to be achieved. The self-created, politically calculated deadline pressure worked wonders. Through the allusion to the endangerment for all, every recalcitrant partner could finally be brought into line, with financial and political compensation deals as part of the normal procedure. And for their own national constituencies everyone could shift the blame, pointing to Brussels as the source of the pressure, and thus withdraw without losing face. Punctually at the end of the year most of the 200 points were clarified, though not always satisfactorily.

However, the hopes entertained for January 1993 of a business boom were disappointed: most of the investments were already underway during the preparation phase. Opening the borders intensified the competition and increased the price pressure, which forced businesses to radically rationalise. This process was accelerated through the continuing wave of fusions, buy-outs, and co-operation between the big companies. The concentration that thus emerged was both stipulated and supported from Brussels using arguments about competition on the world market. The unexpected results of this development for the public: unemployment reached previously unheard of levels in the European Union, without any reasonable prospect of tangible improvement.

Whereas the businesses themselves could, for the most part, adjust to these changes, this was not possible for the Trade Unions as social guardians of the employment conditions. Up until today it is not clear how wages can be regulated and standardised in the EU, given the great diversity of living and working conditions to be found in the member States. The struggle was unequal from the beginning: price conditions in a free market do not allow for any social considerations, at best, perhaps for apologetic commiseration. Wages, on the other hand, are almost entirely determined by social necessities. (Because of this an „employment alliance“ was doomed to fail because companies simply do not enjoy price sovereignty. Contracts can be concluded only about something one has at one's disposal).

As the market power of companies and business affiliations increased, the power of the Trade Unions receded under the pressure of increasing unemployment. To the pure market-oriented economists, and to those politicians beholden to them, „Autonomous Tariffs“ warranty of the labour syndicates had always been a thorn in their flesh. Now at last one could demand more flexibility and deregulation of wages on the basis of unavoidable price reduc-

tions. This new system is fully underway, and in England; for example, the goal has already been achieved to a large extent.

Previously the unions aimed to keep wages as uniform as possible throughout a whole region, irrespective of the individual company's situation, in order to prevent labour from being degraded to a mere function of the market situation. Now the employers could demand the radical subordination of wages to the firm's profitability. From the business point of view, wages are just regarded as costs which, due to the pressure of competition, need to be lowered as much and as quickly as possible. From the point of view of national economy, this one-sided view of wages as costs is a severe regression. For entrepreneurial thinking had only just recently, painstakingly, realised that when establishing wages one must not only consider costs but also take into account the necessary income level, whose purchasing power enables business to continue flourishing. To consider labour as a business cost is both a degrading expression as well as degrading behaviour; actually a societal scandal. Wages do not belong on the cost-side of the business; they are rather an indicator of the value created by those people involved. And as such, wages must be treated as the co-workers share in the business's earnings. The consequences of this view for the manner of calculating value creation cannot be dealt with further in this context, as it would over-stretch the capacity of this book.

What appears revolutionary here has long been custom in the field of Capital: there, what was originally entered on the cost-side as depreciation of real capital is now put together with profit under the heading of cash-flow, which means it is identified as capital added value.

Economic slowdown and rising unemployment have also brought the national budget calculations of the EU into difficulties over the last few years: the tax revenues did not meet expectations and at the same time the social security costs rapidly increased. Budget deficits continue to increase and are only held in check by an increase in the national debt. (Thus the household budget of the Federal Republic of Germany, despite having acquired new debts of 50 billion DM (= 25 billion Euro) in a particular year, was shown as balanced and stable). Globalisation stirred the business world into activity: From their point of view public expenditure has to be re-financed through taxes, placing the load on the shoulders of the citizens and the entrepreneurs. Anyone who wants to reduce costs on the grounds of global economic competition should therefore do so from the States budget. And here it is primarily business taxes plus social welfare costs that they want to be reduced. Naturally there is a lot of political resistance against such dismantling. The harried politicians gained unexpected support from the „Euro“ project. The introduction of a common currency by the year 1999 gave all countries specific criteria for entry, which included the total national indebtedness quota and the annual domestic budget deficit. The argument that „We cannot not otherwise fulfil the conditions of the „Euro-membership“, became a disciplinary instrument for domestic politics. And once those taboos were broken down, almost every social benefit and institution could be put into question. If the level of the social benefits had previously been an indication of the nation's attitude to social progress, it now became an anti-economic stigma, from which one should rid oneself as quickly and thoroughly as possible.

In a certain sense Germany represented an exception within this development: On the one hand, as the leading export country in Europe its international economic competitiveness was particularly important, and on the other hand, Germany belonged to those countries with particularly high (Welfare) State benefits.

1989 saw the high-speed German reunification. Instead of using this reunification as a chance to think about new directions for development, the push was for complete integration into the existing „Western System“ (incorporating five new federal states!). It was thought that both the old and new German domestic market would quickly flourish. However, it was the West German entrepreneurs who mainly profited in the early years. What they offered was

greedily accepted at extremely favourable exchange rates. In business, however, one cannot constantly spend without simultaneously developing sources of balancing incoming revenue. Despite huge subsidies, it became clear that it is extremely difficult to build a completely new economic structure under global market conditions. Year for year approximately 100 billion Euro flow into the new federal states, but the economic turn-around was extremely slow to materialise. The burden on the national budget heightened the crisis of the German welfare system dramatically.

The conclusion of the new GATT agreement

Parallel to this European development there was a similar intercontinental expansion and intensification. In 1994 a seven-year negotiation round was concluded in Marrakesh with a new GATT agreement (General Agreement on Trade and Tariffs) and the founding of the WTO (World Trade Organisation). The trade tariff-reduction agreement GATT, signed by 23 member states, only became operative in 1948 although it was a part of the planned „new world order“ of the later years of World War II, including such institutions as the UN, World Bank, International Monetary Fund etc. The economic goal was to advance the opening of markets world-wide, while respecting certain national conditions. In the forefront stood the dismantling of tariffs and other trade restrictions. Until 1997 over 120 States, covering over 90% of world trade, had signed the GATT agreement. Between 1947 and 1973 the reduction of tariffs between the member states from 40 to 10 percent shows the effectiveness of this measure. From the start it was clear that the interests of the economies with the highest potential, led by the USA, were pushing for massive dismantling of all protectionary measures. Today, „Fight Protectionism“ is still the motto of this group of industrialised countries, although most of them assiduously overlook that in the past, they had developed their own economic strength with the help of high tariffs and protectionist measures.

Over the decades, the basis on which the political and economic relationships were originally built, changed: The crude oil price shock of the seventies gave energy a totally different economic value, unleashing huge international flows of funds; the trade imbalances led to the dissolution of the fixed exchange rates that had been decided upon in the Bretton Woods agreement; the gold backing of the US dollar, the World lead currency, was abolished and the gold price was deregulated; the formation of new economic zones like the EEC led to new power constellations; the debt crisis of the Third World threatened to escalate to a world-wide financial collapse and dry up the trade flows. The emergence of the colonies into independence created an abundance of new world trade partners with new demands; the rapid progression of environmental destruction demanded global measures, and so on.

In addition, there came the structural changes of world trade. More and more, industrial nations were not merely exporting goods, but machines and complete industrial facilities including the respective know-how and capital. Increasing numbers of companies shifted their production directly into other countries for a variety of reasons; (cheap wages, lack of social obligations, fewer environmental stipulations, marketability etc.) and thus also transferred know-how and capital. On the other hand, these new countries themselves increasingly pushed into exporting at cheap prices. This strengthened the view of the western industrialised countries that a new division of tasks was to emerge: In the „highly developed“ countries the emphasis in the future should lie in the development of know-how, innovative technology and technological systems (including computer and information technology), as well as the production of high-value products, the administration and supply of capital including the necessary services. Mass production on the other hand would migrate to the cheaper countries, following the paradigm of the global division of labour.

In practice, these considerations suffered from the fact that the new services which were to fall to the industrialised countries were not part of the GATT agreement and could thus not be considered as internationally secured. In addition to free access to the production markets, protection of foreign investment, free capital transfer, and the protection of patents and other intellectual property rights needed to be established. Since 1986, in the so-called Uruguay round, there were negotiations to re-model and extend the GATT agreement, until at the end of 1994 new regulations were decided upon. The WTO was the result; a revised and consolidated organisation extended to include agriculture in the GATT agreement, a GATS agreement (General Agreement on Trade in Services) and TRIPS (Trade Related Intellectual Property Rights). Now, with world-wide protection for capital and property rights in place - but without any social preparation in our countries, began an unprecedented re-location of trade and business across the world, whose turbulence shook every corner of the globe, and the end is not yet in sight: „Globalisation“.

As more and more corporations now took advantage of the possibility of locating production anywhere in the world, serious consequences (of this development) came to light. It was well known that people in other regions of the world were available as „cheap labour“ due to the poverty in which they must live and work. These „natural location advantages“ remained of secondary economic value, however, due to high transport costs, lack of training, lack of capital, and lack of business innovations. Now, however, with banks and corporations operating world-wide under equal production conditions, the much lower wages due to the extremely poor living and working conditions of the workers can become fully effective in cost saving. An UNCTAD study predicts that in the next few years 1,2 milliards of people will flood the so called work-market at roughly 20 percent of our wage level. Competition shifts from production to the level of wages. In the face of these huge discrepancies it is clear that the call for lower wages, in order to remain competitive, has a destructive effect on society in our part of the world.

The EURO

The introduction of the Euro as a common currency for EU member States was the third event to increase pressure on the social structures. Planned for 1999, this event already influenced attitudes in the European economy in the years before. It was meant to complete European unification and to secure it economically. On the other hand the Euro is expected to accelerate the process of unification, as one knows quite clearly that a common currency is not a matter of the name or the banknotes, but of equalisation of living conditions.

Once again, this time in connection with the Maastricht agreements, the proven political strategy of using time pressure to achieve consensus was employed. By mid 1998, it was to be decided which States were to be accepted into the Euro-group, following strict economic criteria. Among the many aspects of the action (which incidentally include the rollback of the US dollar's position as the global lead currency), the debt ceiling of the acceding countries is a criterion of particular importance.

Based on the fear that indebted countries could be tempted to balance their deficits with the help of their national banks of issue, a politically independent European Central Bank plus a limit of 3 percent of the gross national product for the budget deficit were to guard against this.

Here we should note the cumulative effect of these measures. In most countries, the deficit until then exceeded 3 percent by a smaller or larger amount. Surprisingly, Germany was among them. In consequence, rigorous economic cutbacks and saving measures had to be implemented. Anyone not conforming endangers Europe! Whereas businesses look more to

the wages and employers' shares in welfare costs, the State looks to the legal foundations of welfare and the State's share in this. The general goal is the dismantling of social expenditure, though one speaks of reorganising the Social State. The media messages make it clear: every cutback is celebrated as a victory of economic thinking; countries like New Zealand and Great Britain, who slash their social systems, are envied or praised as role models. In the framework of the Euro-discussion the arguments are of an abstract, currency-oriented nature, but the actual, hard measures hit the social conditions of our society.

The New Power of the Capital Markets

Whereas our working and social conditions are subjected to ever-increasing pressure through the development of the global economy, the Capital Markets are currently enjoying the most intensive and longest lasting boom they have ever known. At last a Market has been found which seems to allow for unbridled growth. Speculations are already being made as to when the Dow-Jones index will reach the magical 10.000 points mark. (As comparison: on the eve of the 1987 stock exchange crash, the index threatened to reach the 3.000 mark) These developments on the Capital Markets would require an in depth study. As before, we select only a few topics immediately related to the ideas this book wishes to transmit.

A central aspect of globalisation is the international free flow of Capital. In the fifties all foreign currency transactions had to be officially approved by the respective central bank. At Bretton Woods it was decided: if we are to have free trade flows, then the monetary flows must also be free, since every movement of goods creates a monetary counter-movement. Later it went without saying that this freedom should be extended to all monetary flows, even when the reason for the movement was not to be found in the real economy. Thus, as an example, a foreign currency speculation is treated in exactly the same way as an import or export. On a strong stock exchange day it is only one tenth of the movements that are connected to real transactions, i.e. have to do with transactions in global trading in actual commodities. This means for example that the exchange rates, short term, are no longer defined by the real economic circumstances; instead, economic transactions have to align themselves to the exchange rates - or, as a well known economist recently commented: "the tail is wagging the dog". The finance processes have almost totally liberated themselves from the processes of trade in real goods.

Those responsible do not question the social results of the monetary or capital flows that they have caused, so long as they bring in the right amount of profit. The competition is uneven from the beginning: in contrast to real investments, which have a certain reality connected to them in time and space and thus are also connected to a social environment, financial investments can be called off at short notice. This is why financial markets are nervous markets: financial capital is always ready to leave its host at the drop of a hat, as soon as more lucrative opportunities arise. And in the sense of mass psychology, the entirety of these movements becomes the cause of new movements. Not even the central banks can withstand these masses of money swirling through the world, as demonstrated by the Soros-speculation against the British pound. And to "save" the Mexican Peso, 40 billion US dollars credit from the central bank was required, which could only be made available by the responsible board members overstepping their areas of competence.

These international monetary flows need an object to which they can relate. Real goods cannot serve this purpose, as the owner of the capital is precisely the one who does not want to consume. This was where stock equity was rediscovered. The share on the one hand, represents complete dominance over the substance of the enterprise, and on the other hand it carries rights of decision, e.g. about dividends, as well as subscription rights for new

shares. In this respect, the stock corporation law is derived from real economy. There is, however, another source of profit that is far more attractive than the first: the capital gain from changing stock prices. And the introduction of derivatives (e.g. options) increased the possibilities of such gains many times over. If it were possible to feed into the stock market a continuous stream of monetary capital, then the stock prices could, in principle, enjoy unlimited growth. It is not only investment capital that is of interest here: in many countries there are intense efforts to bring the wealth of the large state owned pension funds and other forms of social capital into the stock market. The argument given here is that, after all, participation in national productive assets is the best and most appropriate form of security.

Two consequences of this development are of interest here. First, a long-term effect is that stock notations are no longer backed by productive assets, processes or future proceeds. Stock prices no longer represent anything like real values; they are merely fictitious trading records created by the stock market, or indicators of expectations. That they are being treated as expendable assets, like real property values, is one of the greatest threats in recent social development, and the danger increases as stock prices climb. The second effect concerns the corporations themselves, for rising stock prices call for higher dividends. It is argued that by capital procurement through stock issues, a corporation can profit from the issue premium (the difference between nominal value and issue price). But when stock prices climb to ten times the nominal value, a dividend of as much as 30 percent on this nominal value would have to be offered in order to provide a mere 3 percent interest to the investor. In the long run, the corporations pay back much more to the investors than they ever received from them. And they cannot refuse, for the shareholders have the crucial influence on the division of gains: So the clever way out is to make top management co-shareholders, assuring the capitalists' access. The slogan: "The company only exists for the shareholders, and for no other reason" marks this general trend that began with such concepts as "cash flow statement" (the corporation here is seen as a purely finance process), and continues with concepts like "Shareholder-Value" where the company is seen purely as property of the shareholders.

This lopsided way of looking at the economy purely from the point of view of invested capital and its returns leads inevitably to seeing people who require an income, as being purely an economic cost factor that needs to be removed. Capital begins to function antisocially. Headlines in the business section of our newspapers repeatedly read: "Bloodbath on the New York stock exchange" or "Dark days ahead for the stock exchange". And on the same page one could also read what had caused the "blood-bath": Unemployment rates in the USA had sunk. For the logic of abstract stock market- and capital-oriented thinking this is bad news - the improved labour market situation lifts the pressure for rationalisation from the corporations; the resulting economic recovery will lead to higher wages and prices, which then provoke the danger of inflation; the central banks will thereupon increase the interest rates; higher interest rates hamper business activities and reduce the returns on investment, which will cause stock prices to fall.

Because of the above, even the leading circles have long turned away from the goal of full employment. Instead, one discusses the question of what should be done with the unemployed section of the population. (see "*Die Globalisierungsfalle*" from 1996 by Hans-Peter Martin and Harald Schumann) In our countries it is estimated that 80% of the population will belong to this group. In 1995, Zbigniew Brzezinski, the ex national security advisor of Jimmy Carter, coined the cynical term "Tittytainment". This term envisions a mix of minimum income and cheap entertainment programmes in the way an infant is kept quiet by sucking at the nourishing breast.

Globalisation on an Unsure Footing

In summary: the present globalisation developments give the following picture:

1. In the globalisation of economic-, and consequently also of societal relationships, there is a threefold justification. Firstly it complies with the inherent world-wide tendencies of the modern division of labour; secondly, the imbalance between the old industrialised countries and the rest of the world, by the formers' exploitations policy, is presently being equalised, though in a chaotic manner; and thirdly the repercussions of globalisation on our own situation remind us, painfully, of our shared responsibility for the whole of mankind. Justification of a movement however, does not say anything about its content or the way in which it is implemented. The word "global" alone cannot sufficiently justify any actions.

2. Globalisation was set in motion through conscious political decisions. Although its' implementation has so far been in line with Western Market philosophy - i.e. by many uncoordinated single decisions - the dynamics of the development has achieved such a speed and power, that individual businesses hardly believe they could escape from it.

3. In the manner in which it is presently practised globalisation does not lead to improved social balance but to an ever-deeper social split. Not a single solution is in sight to the problems looming in different countries, notably the unemployment problem. Instead, we have a globalisation of the problems. (Not long ago the necessity of single European market was justified, e.g. in Germany, on the basis that only in this way could jobs and the living standard be secured. But today the loss of jobs and wages is explained precisely by unhindered competitiveness.)

4. More and more, globalisation is destroying social rights and regulations of the individual countries, due to international agreements like GATT, GATS, TRIPS etc. which enable corporations and capital to escape any legal pressure by utilising the protected and guaranteed mobility of location.

5. All social obligations and regulations (environmental clauses, work conditions, social welfare expenditure and other investors' responsibilities) can be expressed in terms of money and in this form they represent drawbacks in the competition between locations especially for those where social obligations are the highest. (The accusation of "social dumping", often thrown at low-wage-countries, is inapplicable in that it is not an artificial lowering of costs but rather a "natural" condition.) Therefore cutbacks in wages and social expenses are a central demand of globalisation in order to remain competitive in the international rat race. (Transforming such "costs" to a consumption tax in the form of a value added tax that remained neutral with respect to competition - is an idea that hardly ever gets a mention; see the chapter on unemployment.)

6. The question, triggered by globalisation, of the survival capacity of the economy has been reduced to the survival capacity of corporations and thus to the surety of the capital invested. In this struggle the whole of the cultural and creative potential, e.g. education and science, is geared to the economy (securing Germany's or Europe's position as a favourable business location). Within the framework of globalisation the economy leaves its serving role, increasingly dictating the guidelines for societal development.

With respect to the question of how to react to this development, two answers currently confront one another. The first takes the form of a new edition of liberalism, predicting that globalisation will calm down, that the lopsidedness is merely temporary and that the changes enforced by the market will eventually lead to higher social standards (at least materially). Only increased competition, along with increased competitive capacity, and not social redistribution, is trusted to bring about social advancement. According to this point of view, the faster

we adjust and the more actively we participate, the quicker we will profit from globalisation. All that is needed is courage to join in the development and vigorously oppose those who want to hold on to the vested social rights. The second answer takes the loss of state sovereignty as a starting point. Under the reign of globalisation, no single state can regain this sovereignty; consequently, it has to be extended to international sovereignty. For this reason larger political units are needed, as for instance the European Union, in order to create and enforce standardised conditions. In fact there are more than a few that believe that world-wide operating bodies like the UN, the WTO and other such institutions, provide the only possible path forwards.

Even if it were possible to re-establish world-wide political governance it would be pure superstition to believe that such institutions would behave differently than they do today at the national level. We don't need new governments and parliaments - after all, it was under their responsibility that all these developments occurred. We need new ways of thinking and acting. Nor will these become reality unless we reach deeper to the root causes of the deplorable conditions that have arisen. Our economic thinking, too, has to be urgently renewed. In the face of globalisation: first, in the direction of the fundamental production factors of the economy in labour, land and capital, and second, with regard to the economic processes in the form of competitive market mechanisms. Recognition of the principle that the production factors are unsaleable, and that associative ways of co-operation need to be developed remains central societal topic in the age of globalisation.

The Break-up of Systems

The West Is Also in Need of Perestroika

While for decades the discussion about the right economic system has been dominated by the fight between a capitalist market economy and a socialist planned economy, at the moment there is no discussion at all. Socialism collapsed, capitalism won - this simple formula makes any justifications unnecessary: Victory carries more weight than any argument. Aren't you immediately joining the lines of the losers if when you criticise the winner in the hour of victory?

It is possible to see it this in a different light. Precisely by ending this unfruitful systems discussion, fertile space for re-thinking could open up. The need for such rethinking has been there for a long time. Gorbatschov admonished the market-oriented countries: The West is also in need of Perestroika! The West rejected this as an outrage. But is throwing a stone unjustified, just because the thrower is in a glass-house? Fixation on the competition between the two systems has pushed the question about their inner social quality into the background and has made it a question about the lesser evil. In the land of the blind, the one eyed man may feel himself to be king. But we can only be satisfied when our social conditions meet the demands of fully functioning eyesight.

Competition Between the Systems

For centuries, the call for individual freedom, or freedom of the individuality, has been heard in the world. This demand has been especially related to European-Westerners, but is not restricted to them. Nowhere can one work for the future while working against freedom. The experience of the socialist countries shows this, but also the current state of the so-called developing countries. Alongside the strive for freedom, the scientific-materialistic view emerged, saying that the freedom of the ego expresses itself as economic egoism. In a market economy, egoism is then claimed to be the only incitement for economic action. The call for economic brotherliness therefore appears to be a sentimental weakening of this incitement in the eyes of those who think along market economy lines: Prosperity for all can only be achieved when every individual strives for it for him- or herself with all their strength; those who don't live in prosperity, haven't been striving enough. The injustices that are a result of this are supposed to be an incentive for those who got a raw deal. In competitions, strength prevails, and weakness loses out. Compassion might be a fine human characteristic that our Christian faith requires us to cultivate, but in economic life it has no place. The thinking in the framework of free market economics has many of the characteristics of Social Darwinism.

In contrast to this, socialism became the catchment area of those who were discriminated against by the free market system. People, also in the West, are driven towards socialist ideas because these ideas challenge the legitimacy of an unjust distribution of economic rewards. This legitimacy is based on a view of inequality as being the result of "objective" market law, functioning as if it were a law of nature. It has often been attempted to prove in a comprehensive way that injustices are the result of a massive deceitful manoeuvre, which in Western legal terms is called "ownership of the means of production". Ownership became, in this view, a means of exploiting the non-proprietors. This is why the socialist revolution begins with a revolutionary legal act, the "expropriation of the expropriators". One tried to overcome the dogma of egoism as the only incitement to economic action, by defining the mental

and spiritual aspect of the human being as a function of social life. Therefore, if the social institutions are directed to the needs of the working population as a whole, these social circumstances will stimulate the human being to feel and act socially. The interest of the individual has to be subordinated to the commonweal; then, after a certain transition time, the individual will experience this subordination as his or her own will. Until this is the case, society has to be defended against egoism.

But because egoism is inseparably connected with humanity, suppressing comes to mean suppressing humanity. A kind of collectivism develops whose effectiveness works in the name of humanity against the individual human. This is how this social system destroys what it actually wants to build up. The revolution eats its own children. It is truly devastating to observe the contempt for humankind, which shows up in the dynamics of this development amongst those who are responsible for it. (This phenomenon can already be observed in the French Revolution, where humans are taken to the guillotine in the name of virtue. According to Robespierre: Terror is the virtue of the revolution.)

But there have also been many attempts, especially in Europe, to create a balance between both positions - a third way. On the one hand, the forces of conscience of the Christian Occident are working in such a way that we can only accept injustice and social misery up to a point before we actively intervene. In addition, calculating morality is spreading, which is based on the insight that, within an economy that is based on a division of labour, there is interdependence between its parts. Thus a true free market economist would call the redistribution of goods for social reasons an economic sin, but on the other hand, social expenditures are at the same time purchasing power in the hands of the poor and therefore necessary for the turnover of produced goods. A third reason for social-governmental interventions in the market system lies in the democratic social order. Because the socially weaker population represents the majority of the electorate, redistribution from top to bottom is a political necessity to get the approval to continue, meaning to get elected.

The model in between both positions which is currently most notable is the “social market economy” of the Federal Republic of Germany. In this system, the economy itself is left to market dynamics, while that which is socially desirable is “enforced” from outside by the state, through legal conditions and regulations. Through this concept, the social circumstances seem to be far more balanced than in other regions of the world. On the one hand, “performance can pay” i.e. there is enough space for egoism to strive for its own benefit. On the other hand, a “social net” takes care that, all in all, nobody has to suffer so much existential privation that the economic system as such has to be questioned.

Man and the System

All of these approaches towards the organization of economic life suffer - even though they contain correct elements - from one grave weakness: They neglect the possibility that human individuality can also develop altruism and brotherliness within itself. The image of man that underlies the ideas of free market economy only goes as far as accepting that mankind's intelligence can serve the greedy nature of his soul as an instrument. In a social market economy, social behaviour is seen as necessary, but it is believed that social duties have to be imposed on the individual's will from the outside. Social balance appears to need enforcement in order to overcome egoism, and is therefore only undertaken reluctantly.

In socialism, it is believed that it is necessary to deny the individual spiritual nature of the human being, and replace it with collectivist behaviour. Whoever talks about brotherliness in a market economy will be considered naively idealistic, or a crackpot; whoever demands individual freedom in socialism, is seen as a counter-revolutionary enemy of the collective.

The one who comes away empty-handed in all these considerations is the human being who strives towards brotherliness out of freedom. This behaviour is what we call love. It hasn't been realized in the Christian Occident yet, despite the fact that economic life in particular, with its all-embracing division of labour, calls for human solidarity. Love cannot be decreed. But the social institutions must not hinder its activity. However, this is what happens when only those institutions in the economic organism are allowed to exist which operate according to the worldviews inherent in the system. In the one case, the human being is tied to his or her instinctual nature from which, out of his or her innermost humanity, he or she wants to emancipate himself; in the other case, his or her individual humanness is destroyed to create a functioning member of a socially oriented collective.

The Associative Extension of Market Economy

The following section therefore deals with the extension of market economy towards an „as-sociative economy“ (the selection of words will be explained, but it is not of core importance). Whoever observes the development of today's economy can see everywhere the upcoming need of this extension of our economic understanding and behaviour.

In times of need, the motives that drive a person to do something may seem irrelevant at first, as long as goods and services are generated at all. Bread before culture and spirit - this advice is presently being spread around the world by the West. However, in an advanced stage of development like today's, it is precisely the way in which motives are formed, which is becoming more and more crucial. We begin to understand that each economic action has its contra-entry somewhere in the world: If at one place someone enriches himself egoistically, this will lead to poverty in another place; if resources are wasted, scarcity and price rises will follow; if the environment is overused, irreparable destruction occurs, affecting the future; where there is surplus, people immigrate from areas of poverty; where resources are forcefully acquired, hatred and rebellion grow; if in one place there is an export surplus, debts will accumulate in another, etc. These counter-entries are not only to be understood as a theory on paper - they create deep social disturbances/. The consequences, however, will in the long run return to the originators, causing their own destruction.

On the drawing board of market economy models, everything looks quite simple: It is only numbers in formulas that change, and are corrected by sponge and chalk. Social life is not about blackboard realities, but about concrete individual fates, or fates of whole groups, regions or continents. Beware of the poor of the world starting to come to the countries of wealth, for example, "as there the payment of the production factor of labour is higher, and therefore attracts a higher supply." * Nobody is ready to lower wages until supply and demand are balanced, just "because of their belief in market economy". Why is there a desperate attempt in the former German Democratic Republic to create jobs, while at the same time there is a shortage of workers in the West? Almost nowhere, are we leaving the shaping of social life to market forces alone. Within the EC, almost 60% of the goods and services stem from "markets" in which society has intervened against market forces, often in strong ways, "for superordinate social reasons" (for example in agriculture, traffic, postal service, communications, steel and coal industries, shipyards, aviation and computer industries etc.) Clearly this shows that viewpoints were taken into consideration, which were thought more important than the prosperity of the individual.

This is a matter of the well being of a whole community. If one doesn't want to get caught up in the thicket of bureaucratic and freedom-smothering rules, then higher motives have to become dominant in those people who are active players in the economy. But this is only possible if their awareness, and accordingly also their responsibility, is expanded to macroeconomic processes. Pervading the economy with associations? could serve to make this possi-

ble. In this way, social aspects, which are today only bureaucratically initiated by the state, would become the concern of those who are economically active themselves. Self-management of economic life should develop and unfold, calling forth and strengthening the social powers of the people. However, one has then to leave the narrow view of the economic players as being just the entrepreneur and the employee, extending the concept to include the consumer as well. Self-management cannot be a self-service shop for one-sided interests; it must be a means to serve the meeting and balancing of interests. The blindness of market economy needs to be replaced by the light of awareness of the market partners.

The development in the East, particularly in the former German Democratic Republic, shows how necessary such an expansion of our economy towards associative self-management really is. When chancellor Helmut Kohl in his New Year's speech of 1990/91 invoked higher human values than personal wealth, for example solidarity with the fellow-citizens in the East, this principally correct viewpoint was immediately revoked by the subsequent statement that this solidarity can only be achieved on the basis of the present market economy. But egoism and solidarity are mutually exclusive. Developments since then have proved it: On the one hand, people in the new federal states try to increase their work input and to preserve jobs, on the other hand we simultaneously witness a refusal to buy the products they made themselves; therefore people are again taking to the streets, demanding improvement of their circumstances from "those above". Only where people take matters into their own hands, associatively and in self-management, is there a growth of awareness of the connection between the behaviour of the joint impact of cooperating individuals, and the possibility arises to take appropriate and realistic action instead of holding others responsible. The facts of socio-economic life clearly call such a change. The long outdated model of market economy haunts only the heads of those responsible.

Rights Must Not Be for Sale - the Problem of Pseudo Markets

However, this extension of market economy towards an associative economy faces huge barriers. The biggest of them have arisen through the insubordinate extension of the market concept towards the so-called production factors labour, land, and capital or money. With respect to formal logic, everything seems to be alright: Whenever someone owns something but wants to part from it, and someone else needs it and is ready to purchase it, a market is generated - and with it, a price. Why shouldn't this hold for labour and the other production factors?

In consequence, we talk about a labour market and call wages the price of labour; we take it as a matter of course that land is purchasable; we regard it as the unquestionable right of the factory owner to sell his company to other companies or to speculators at the market value; and we find it normal and enjoyable for the owners that money has its interest rate and keeps increasing. But formal or apparent logic doesn't establish reality. Close scrutiny is needed to reveal the differences, and with them the unavoidable, innate laws of living conditions.

The following observations on labour, land and money should serve to explain the three "production factors" on the basis of their role in the social process. They show that in all three cases, the concept of "market" is not applicable. That labour, land and capital cannot be sold, can be shown as inner consequences of the respective explanations. The three production factors do not form markets, but pseudo markets (mock markets). In reality, labour, land and capital enter the economic sphere through legal relationships. Legal rights, however, cannot be bought - if they were, they would lose their legal function - they can merely be assigned to someone. Their subjugation under the economic market concept is precisely the cause of the growing social damages they are producing.

The collapse of socialism has rekindled the question of legal relationships in economic life in the countries concerned. A great opportunity existed for taking an important step to overcome the pseudo markets. The chances for such a change have been missed. According to the common motto "whoever pays, gives the orders", we have made the introduction of pseudo markets a condition of our help. By the implementation of free trade unions, the division between entrepreneurs and employees has been simultaneously cemented long term; by enforcing privatisation of enterprises and land, momentous redistribution processes towards private capitalism have been initiated, tying economic motivation to private and personal interests, and the introduction of our monetary- and bank system has put the power of money on the throne. Those who adapted the system have done it fast and comprehensively. Because by now, the political decision-makers in the East are no longer just the victims of our adaptation strategy, they have become its promoters. The audaciousness of human-social development perspectives has been smothered beneath the inhumanness of social dogmatism, and has given way to a social pragmatism, which adopts what has been found to work.

Consequently, the explanations to follow may meet unwillingness in the West - "Our system has proved its superiority" - and also in the East - "We, too, finally want the affluence of the West". To short-term interests, what is said here may sound idealistic-utopian. But in the long run, experience will show that overcoming the pseudo markets and extending market economy towards associative economic cooperation*, is vital if we want to create circumstances in which the word "social" can be rightfully used. Not only bread is what really counts, but also the understanding and the will for social circumstances in which bread is produced again and again, and also reaches all people.

What appears in the following chapters (some of which have been published before¹) is restricted to economy and its legal framework. It should be seen in the wider context of "three-folding of the social organism", an idea launched in the German-speaking world in 1919 by Rudolf Steiner, the founder of Anthroposophy. This outline of a new social order recognises the new place of the self-responsible human being in a society, whose role has changed from authoritarian guardian of the individual's development and education into the promoter and protector of free, responsible individuals - an important role because without this, freedom and individuality will be suppressed.

That this outline comes from Anthroposophy is inherent to its philosophy. Such societal change can be demanded only by someone who can prove that human development does not stop at the assertion of a libidinal ego, but that the "I" includes a higher reality, to which it can wake up and educate itself.

1 The essays on "Associative Economy", the "Fundamental Social Law" and on the "Essence and Function of Money", are revised versions of the first edition in the three volumes of the "Forum of Social Science" by the publisher "Verlag Freies Geistesleben", Stuttgart. The essay on "Land Property" is a summary of the suggestions for land reform in Switzerland, which has been published by the author firstly in the journal "The Green Snake" (Die grüne Schlange).

Associative Economy - the Search for Social Justice

“A food which permanently stills hunger does not exist; neither does a universal social panacea. Nevertheless, men can enter into communities in which they would be able to continuously direct their activities in a social direction.”

Rudolf Steiner in “Basic Issues of the Social Question”

The economic sciences search for the laws underlying economic life. Therefore the search is at the same time an attempt to provide an objectively legitimate foundation for human economic action. A dual character results: as a theoretical science, economics looks upon processes as nature-given events; as a practical science, it shows how economic action should comply with scientific knowledge and events be directed accordingly. In this duality is rooted not only the special nature of economic science but also its dilemma - comparable to the central problem in philosophy: building a bridge between the truth of cognition and ethics of human action.¹ This is because the social conditions are themselves the result of human behaviour. What emerges out of economic life as „objective“ natural law originates in our own „subjective“ actions. The search for social principles in economic life - not to be confused with the laws of natural science or technology as they are applied, e.g., in production - is in truth a search for the determining causes of human behaviour.

For this reason it is wrong to demand that we „should beware of the prevalent mix of factual investigation and socio-political valuation.“² The combination of the two is a natural characteristic of economic life. We cannot look upon the economy from the outside. As its originators, we can only observe from the inside, like „being in a retort and actively taking part in the processes occurring there.“³ In fact the opposite is true: He who artificially splits what objectively is a unity, has to ask himself in the end how he can motivate people to act in accordance with mere “objective” laws. In the end, dualistic thinking leads either to the moral demand of voluntary subjugation to the laws discovered or asserted (duty), or to the use of external force „for the benefit of all“ (obligation). Both, however, are irreconcilable with the dignity of the free individual who wants to fit his actions in each case to the particulars of the situation. This is what forms the foundation for the potential development of our human rights.

Life, in particular economic life, needs the structuring capacities of individuals in order to prevent rampant, excessive growth. In view of its prolific powers of production: what gives our economic life its social form? The answer to this question is crucial for the state of health in the social organism. One thing can be said at the outset: the individual aspiring to freedom cannot only be the recipient of such structuring, he himself must be the agent giving form to those impulses. In economic life one needs to be actively involved in shaping it or else one is enslaved by it. Our time requires that those who are active in economic life take up this task of self-management.

1 This is the central question of human freedom. See Rudolf Steiner, *The Philosophy of Spiritual Activity (Die Philosophie der Freiheit, (1894)*

2 See Gert von Eynern, *Grundriß der politischen Wirtschaftslehre*, S. 170ff., Cologne, 1968.

3 Rudolf Steiner, *World Economy*, Lecture IV, <http://wn.rsarchive.org/SocialIssues/19220727p01.html>.

The Question of Justice in Social Life

"At the beginning of culture, humanity strives to create social communities in which the interests of the individual are sacrificed for the interest of the whole. Later developments lead to a gradual freeing of the individual from the interests of the community and to an unfolding of individual needs and capacities."⁴

With these simple words known as the "Basic Sociological Law" Rudolf Steiner pointed to the revolutionary change in the relation of the individual to the community which has occurred in recent times and which is still going on.

Early communities, encompassing all areas of life, would let the individual perceive himself as such only to the extent that he was part of the whole. The totality itself was accepted as a superior authority; it went without saying and appeared deeply justified that the guidelines for his life would come from its representatives. The individual was not responsible for the regulation of social relations. What was passed down from the higher orders of priestly wisdom or originated from established tradition was therefore "just", and was accepted as "right" also for the economic arrangements.

Later the right to leadership passed to the "everyone" of the general human rights in our constitutions. Patterns of behaviour that were practised before with full justification would turn into their reverse if continued in our time. - The inauguration of the self into its individual rights in modern constitutions requires new forms of behaviour: that the individual should work towards and qualify himself for full individuality, establishing from within what formerly had been coming from outside; that the will to super- or subordination be transformed into the power of acting according to one's own insight; and that he should realise that the community has only as much substance as he grants it by bringing in his or her initiative and commitment. The individual becomes the starting point and agent of responsibility for social reformation. Such a change in relationship cannot be decreed from "above" but takes place to the extent that people accept it out of their own free will.

The disintegration of past social collectives increases the importance of the personality both in the cultural and in the legal sense, but at the same time, it leads to social isolation of the individual. Without support from the earlier community spirit, he is increasingly moved to look after his own interests. In this moment of social disconnectedness, egotism begins to seize power over the structuring forces in the socio-economic organism: I work because I must satisfy my needs; work becomes acquisition. At the same time, however, social life all over the planet is assuming the form of division of labour, especially through the intensification of economic life and the utilisation of natural and intellectual powers in technology. Everyone now makes only a few kinds of products, but for many people. The individual can no longer use all that he produces, and most of what he needs is made by others. This provokes an explosive growth of the need to trade. Not only goods of excess or scarcity are being sold and purchased, but virtually everything that is being produced.

But what is the value of labour? If everyone kept everything he produced the question would be superfluous. But since products generally have to be exchanged it is of central importance. So the question needs to be reformulated: it is not labour that is directly exchanged against labour, but the products of that labour; hence the question has to be: "*What are the products of my labour worth?*" (Although this seems to be self-evident, the question about the direct value of labour has up to this day led to countless theories.) - The relation between two goods that are to be exchanged is the relation of their social values. Through the intervention

⁴ Rudolf Steiner, *Magazin für Literatur* No. 29, 1898, in GA Bibl. No. 31, „Gesammelte Aufsätze zur Kultur und Zeitgeschichte“, Dornach 1966, pp. 147.

of money this value finds a monetary expression: as price. Being comparable, prices show how much everybody has to give away (sell) in products to get (buy) the products of others. When this relation is perceived as balanced, we speak of fair prices; imbalance we perceive as unfair. Price fairness refers to the degree of mutual product allotment, that is the amount of work to be contributed reciprocally. In economic processes based on division of labour the question of fair relationships between one's self and one's fellow human beings becomes the question of price and will therefore find its answer where we deal with the price-making forces.

How do we achieve *fair prices*? The present situation of the global economy causes this question to be asked with great insistence. Unjust prices have deeply outraged the working classes for a long time and caused a serious crisis in social life, the splintering of which persists to this day.⁵ In many parts of the world, unjust prices have created a bankrupt agriculture grudgingly kept alive, starving amidst abundance. Intolerable price imbalances are in fact responsible for a large part of the debt problems of the third world.

Joining two aspects as far apart, apparently, as fairness and price will of course stir up opposition. There are two main objections. One opposes the connection of a rational-objective aspect (price) with a subjective feeling (justice). The other argues that the question of price cannot be solved rationally, particularly not in the face of - "the erring reason of man, especially in view of man's present degeneration".⁶ However, the independence of democratic maturity is useless in life's reality unless the question of the individual's share in economic production and consumption is fairly resolved as well. He who denies that this can be resolved through human insight actually condemns the individual to egotism, making illusory the basis of our society, free responsibility. Such inner incapacitation will soon be followed by the outer. On the other hand, he who would keep the question of justice apart from economic life misses the fact that economic justice is inseparably tied to bartering.

At this point it becomes clear what is really at the bottom of those two objections. It all comes down to responsibility for the resulting social circumstances. He who shuts out reason absolves himself of the task of social creativity. Reason is the basis of our maturity, of the possibility and actuality of taking responsibility for our own actions. And economic life is our own doing. Looking solely for "objective" processes as causes always leads back to ourselves as their ultimate originators. "Am I my brother's keeper?" To answer yes to this question is virtually demanded by the present reality of social life; the will to make it our own task is the starting point for creating the social structure of the future.

... all goods must have a price set on them

"For neither would there have been association if there were not exchange, nor exchange if there were not equality, nor equality if there were not commensurability... This is why all goods must have their price set on them."⁷ This concise abstract of the connection between justice and price shows Aristotle's striking intellectual capacity when grasping the inner problem of economic life, which in his time was only just emerging.

"For neither would there have been association if there were not exchange!"-Mankind's state of consciousness has substantially changed since Aristotle. And division of labour has since spread all over the world on the wings of modern technology. There is no one who is not

5 Wage is considered here as a partial aspect of the price question

6 Silvio Gesell, *Die natürliche Wirtschaftsordnung*, Vorrede 1916; Nürnberg 1949.

7 Aristotle, *Nicomachean Ethics*, Book 5, Justice in exchange, reciprocity in accordance with proportion. <http://classics.mit.edu/Aristotle/nicomachaen.5.v.html>.

linked through visible and invisible threads with the whole world by the most diverse flows of commodities and networks of production.

Economically the world has become a unity. Together the people partaking in it form a world community. - Despite all the problems of today's practice, the call for free world trade has its ultimate root in the feeling and insight that without it, this world community would suffer serious loss, would even be impossible. - Economic science takes notice of this only reluctantly. What is practised is still "national" economy, acting on the assumption that national economies balance their mutual trading. The greatest obstacle on the way to an economic world community today is the fixation of economic thinking in national politics, as for instance in protectionism.

"No exchange without equality!" - But free world trade cannot mean letting chaotic and rampant economic forces simply go wild. Each human being can only accomplish what is within the range of his capacities. If a man produces something for which there is a demand then, in an economy based on division of labour, there should be a reciprocal transaction through which he receives "enough to enable him to satisfy the *whole* of his needs, including of course the needs of his dependants, until he has repeated the production." Rudolf Steiner calls this the social cell, or the archetypal building block of economics, the social atom.⁸ This is the necessary condition for the individual and the community to continue in economic life. For economy as a whole to function in the balance of supply and demand, there must be balance in the individual's life between his capacity potential and the sustenance necessary for its unfolding. When everybody receives his due via the price then qualitative equality, that is equity, is achieved.

"No equality without commensurability!" - The problem of measurement has two faces. There is a need for a measuring instrument and there is a need for an understanding about the units of measurement. The latter is found in the knowledge, gained through life experience, about the concrete living conditions of all involved. What people can do and what they need depends on those very circumstances. In this respect, earlier social and cultural communities with their small and manageable conditions had it much easier. Living closely together provided by itself the empirical substance for evaluating barter relationships that then often became long lasting. In the modern world economy the original market, woven of personal connections and acquaintances, has become a depersonalised and abstract concept while the participants sink into mutual anonymity. Unless we recover the potential of life-saturated experience among those participating in economic life, there is little chance of solving the question of fair prices.

Money does provide an ideal measuring instrument so long as it purely and selflessly serves the function of measurement. Compared with barter it enables the shortest of all possible trade relations: With one single act of exchange (buying and selling are each only one half of the whole exchange) a product produced, but not needed by myself, can be transformed into one produced by others but sought by myself. Since buying and selling take place between different people and at different times, money has to embody the legal security that it can be transformed back into a real product in case of need. Therefore it is not only the redemption guarantee of money that matters, but the real buying power has to be taken into account as well. Inflation, for instance, functions in such a way as if someone had altered the measuring instrument. Non-reliability of the instrument, however, causes a social climate of mistrust of the future.

Even more problematic is the development of money and capital towards a "pseudo-commodity" with money- and capital-markets of its own. This separates money from the so-

8 Rudolf Steiner, *World Economy*, Lecture VI, <http://wn.rsarchive.org/SocialIssues/19220729p01.html>.

cial reality, for which ultimately it should be an expression, making it an „unreal competitor“ for the flow of commodities, goods and services on which it tries to impose the conditions of its own abstract being. (Take the foreign exchange market as an example of these money markets. The will-o'-the-wisp movements of currency relations come from enormous amounts of socially unbound capital shuttling back and forth at computer speed, with volumes exceeding the real exchange of goods and services many times over. These sort of currency fluctuations bring chaos to the investment goods and services whose medium- and long-term variability is hopelessly inferior to the short-term range of unbound capital.) Applied to the measuring instrument and the measuring process, this means that the instrument has lost its neutrality and objectivity. Their re-establishment, the re-linking of money to exclusively serve social flows of goods and services, is therefore also a task closely tied to the solution of the question of fair prices.

„This is why all goods must have their price!“ - “Their” obviously means the fair price because in the long run a community will only be able to survive if its social conditions are perceived as fair by all involved. But is the road to fairness, via the complicated process of pricing, the right one? Would it not be easier to simply do away with prices that can create such injustice? To do away with prices would mean doing away with money. But once we look beyond the price label we realise that pricing, as an expression of exchange relationships, will exist as long as goods and services are being exchanged. To do away with prices would mean either a relapse into old forms of self-sufficiency, or an advance to new forms of co-operation without the old exchange forms, for instance starting to give everything away.

Through the individual renouncing his claim on income for his labour, the question of distribution is certainly moved to a higher moral level. This however does not make up for the price question because, as long as the availability of goods and services is not unlimited, who receives how much has to be decided. The giving nature of love is not the annulment of justice but its advancement. One can neither do justice to a human being nor love him if one does not know him. Conscious cognition is therefore the foundation of both justice and love: “The way to the heart is through the head.”⁹ If love that gives itself is not to become victim of intent, preference or arbitrariness, it must first be educated towards a consciousness capable of seeing through social conditions. Price has to take on the task of education from social blindness to social awareness.

Receiving its price in the social context of production and consumption, a product moves from the realm of obscure sentiment into the light of our consciousness. We attain this awakened consciousness for the structure of social relationships by “arresting” economic life in the very moment of the exchange - taking away its vitality. How much of social life is still shining through in a price label with a number on it? It is a justifiable feeling many people have when they perceive pricing as an act of social coldness, destroying the “warmth” of social life. - And yet - he who feels like this keeps his consciousness focused on the surface of prices. He does not realise that this is only the shadow side of the price forming process in which the quest for justice seeks expression and can actually find it - if we, with an inner sympathy, enter responsibly into shaping those economic and life processes which form the basis of pricing. Price is indeed the end of economic life, but it is also the beginning of shaping the economy.

9 Rudolf Steiner, *The Philosophy of Spiritual Activity*, chapter 1.

Acquittal of Social Responsibility - the Model of Market Economy

In old cultures like the Sumerian the priests in the temples determined the right prices for exchanging goods and services in a just manner, regulating social life on the basis of the era's thinking and feeling. But who will settle prices between human beings who are on equal terms and whose economic-social relationship only consists in the thread from selling to buying?

The industrial revolution has radically changed economic conditions in various ways: not only the old structures disintegrated, but also the prevalent fundamental sense of just business agreements; For the new products and their production, there were no experiences which could ignite new feelings;

- Industrial mass production precipitated division of labour; regulating our whole economic existence through sale and purchase. The separation of these acts in time and between persons made it impossible for the individual to remain connected with his consciousness to the whole process.
- As working for wages also began at that time, the greater part of the working population was excluded from the real barter relationship "product for product" and had to enter the inhumane relationship "labour for product".
- The barter partners disappeared into the anonymity and physical distance of the world markets for which one produces and has things produced. The long trade routes prevent staying in touch with the production process. And the social conditions under which those partners live are therefore no longer accessible to one's own experience.
- Production and sale, consumption and purchase drifted apart on a global scale through division of labour until, bound together in a hate-love relationship and simultaneously separated, they faced each other as the market protagonists "tender" and "demand".
- Freedom of production, i.e. permission for everybody to produce anything as long as a buyer can be found, and freedom of consumption as the right to buy any product if only one can pay for it, destroyed once and for all established ties between the economic partners and made the principle of spontaneity the forming power of the social structure Planned shaping of the whole is no longer possible and thus, no conscious price formation, i.e. no fair conduct.

Sale and purchase are the two halves of an exchange which work between the partners in a labour-sharing economy, determining the price. When in balance, they form the fair price which enables the continuation of the economic process. As the relations between the exchange partners weaken, the welfare of one's ego and its importance move into the foreground. The isolation leads to self-centred "self-sufficiency" which no longer occurs naturally as in earlier societies (I produce for myself what I need). In an economy based on division of labour, providing focuses on accumulating money. The welfare of the individual is now in the foreground; fairness becomes self-righteousness, becomes egotism: he who can sell at high prices and buy at low prices is not unfair but successful. Egotism was declared the sole driving force of economic activity for all future times¹⁰

Modern division of labour creates extreme dependencies and at the same time a tight net of exchange relationships. But how can a community of equals depending on each other exist, if its basis is the individual's will for having the upper hand, i.e. injustice? Excessive gain can only be realised through prices; setting and controlling prices must therefore be the aim. -

¹⁰ In the same way as Kant imprisons the human being within the limits of cognition and assigns him the new virtue of duty, Adam Smith sees subjectivity in society as egotism, and administers the subjection to the laws of the market.

With the model of market economy Adam Smith found the solution: The price must be removed from the direct influence of the participants of economic life.

In the environment of his life the individual becomes aware of a price that promises a profit. This perspective advantage activates and inspires - so to speak automatically - his egotism, which is permanently looking for profit, for business activities. At first there is only the expectation of making a profit, an imagined profit. The conditions for total competition are fulfilled once you have taken care to make the profit opportunities public, made them available for all to pursue, encouraged people to take advantage, and prevented any communication between competitors.

Here the sum of all hoped-for advantages is greater than the possibility of their fulfillment. Through the division of labour no one can survive on his own, everyone needs exchange to continue existing and thus trade is universally enforced. Competition for the few remaining partners now pushes the price in the direction opposite to the respective expectations, and depending on the constellation, far beyond the fair price. The trade result is the opposite of the trading expectation: What the individual intended has unintentionally found its way into the community as represented by the trading partners. This principle of "societal appropriation of private production success" is understood as the very essence of market economy.¹¹

The question of justice has now taken a surprising turn. Aristotle already tried for a definition of the fair price and found it in a geometric proportionality stating that prices should enable the complete mutual exchange of the day's work. At the same time he claimed justice as the highest of human virtues: no justice without fair conduct.

Quite different with Adam Smith: Whether due to the real incalculable conditions or the ineradicable egotism of the human soul - fair behaviour is not only impossible, it's also no longer necessary. Because the market mechanism, standing as an authority above the human being, forces him with mathematically unerring objectivity to deliver his loot, making sure that egotism doesn't overflow. Thus justice is reduced to the balance of egotisms. (This manner of achieving desired conditions, not from within but from without, through the mutual paralysis of two colliding forces of equal volition, is nowadays widespread, e.g. in the balance of mutual terror, or in the balance of collective wage bargaining, etc.)

Through the creation of the market model, Adam Smith tried to relieve modern man of the tormenting responsibility for social justice towards his fellow man. The price for this "indulgence" seems low: It is the unconditional submission to the laws of the free market. In return egotism is suddenly no longer a moral stigma to be concealed but a social duty, the fulfilment of which one may openly and proudly confess to.

The realization that the growth of prosperity achieved through the market model has been bought with the loss of mankind's moral development is countered by advocates of market economy who claim that such an idea can only be the result of an "idealistic" but "unrealistic" conception of man. "This conception of man presupposes a belief that man is permanently ascending towards an imaginary perfection. It thus reveals an ascendant anthropology that can only be judged as an anthropological overestimation. As a matter of fact such a perfect being cannot be historically found or proven, nor does it appear in the history of socialist societies."¹² Not only is the proof of this assertion unsound; it shows how quickly some will sacrifice the real meaning of humanity for the rescue of an economic model.

Egotism tracks down every chance of possible advantage and transforms it into economic activity; egotism is never satisfied, but regards its successes only as intermediate encour-

11 *Bundesrepublik Deutschland - DDR, Die Wirtschaftssysteme*, ed. H. Hamel; Munich 1979, p. 192.

12 loc. cit., pp. 47.

agement on its path. The market distributes the successes achieved amongst the whole economic community, transforming the advantage of the individual into cost reduction for the whole. As long as egotism does not rest, the tendency towards reduction will also persist: Cheapness is the new social justice of market economy. It is objective and of benefit to all, egotists and idealists alike.

In this model, price plays a second important role. In addition to regulating the short- and long-term balance of goods and services, prices trigger prospects for profit which cause the "production factors" labour, capital and land to gravitate towards business areas where the prospects for profit are high. There these controlling factors provoke improvements of production and productivity, increasing the return on investments until a long-term balance between all branches of production sets in, producing a "fair" distribution of the production factors.

The objective of business is to satisfy the needs of human beings through goods and services. From that would follow that on the side of production the exact need should already be known beforehand. In market economy such pre-knowledge is regarded as impossible and unnecessary. Instead, the strength of demand becomes visible through the price, whose attractiveness encourages production. Since the egotist will and must base his economic decisions solely on *his* attitude towards price, he cannot perceive what his competitors and opponents decide for themselves. When this social blindness upsets the balance between supply and demand, the market mechanism establishes a short-term balance by adjusting the price so as to bring supply and demand into congruency. Since by then production has already taken place, this is only a matter of arithmetic-quantitative compensation of imbalances, as for instance when a merchant tries to clear out his vegetable stock before the holidays. In the sense of market economy, balance brought about by such clearance sales produces market justice.

Aristotle knew two kinds of justice, just conduct (distributing justice as virtue) and restoration of justice through judication after unjust conduct (compensating justice). Distributing justice strives for fair prices from the start; in the case of compensating justice the judge gives back to the victim of overpricing so much from the cheater's excess that in the end a balance of advantages is achieved. This compensation is carried out arithmetically and proportionally, but belatedly, by means of higher authority. So it becomes clear that market economy is altogether a model of legally established justice but with a peculiar expression: Initially it seduces the market participant into egotism and thereby into the injustice of overpricing (that is, it assumes all economic actions to be tendentiously unfair), but then it compensates this unfairness arithmetically through the price which is set by the market in its role of "objective judge". Social life turns into continuous court-proceedings in which the accused is permanently acquitted but his advantage confiscated.

An objection could be brought against the above: that real life has long since gone past the abstract model of market economy. True - it has been a long time since science has been able to find either perfect or free markets. The boundary between the conscious attitudes of the market partners has long ago been surmounted through arrangements, advertising and market research; everywhere the state is economically active, steering investments or influencing corrections in the markets. Companies produce more when prices are falling, or compete by selling below production costs; social politics has taken the place of the market economy's justice, correcting what market economy fails to put right. This list of transgressions could be extended at will, but nevertheless the market model, with its basic idea of unbridled and incorrigible egotism and free competition, has eaten itself deeply into the minds of that part of humanity. When social practice keeps pushing for correction and change, something must really be wrong with the basic idea. A new way of thinking is necessary, but in what direction?

Rationally Planning Justice - the Model of Socialist Economy

The complex construct of a modern market economy complies with no thought-up overall plan; rather the whole is the result of countless individual spontaneous decisions. The object of individual striving can remain completely free because on the one hand, the motive for economic activity is coupled to egotism which undoubtedly exists in the human being, as a necessary shadow of the unfolding of individual personality with its increasing momentum. On the other hand, the fruits of the market players' egotistic activity are brought to the community in the form of long-term assured cheapness of products. No planning authority is needed: *Le monde va de lui même*. This applies also to the fairness of prices: an individual sense of justice would only severely disrupt the functioning of market economy.

As long as such reflections refer to the bartering of goods and services they possess much conclusiveness and certainly some historical merit. But neglecting the real conditions of life and production had serious consequences lasting until today. If the economic world is to be divided into "supply" and "demand", this would have to include all working people because they all depend on selling and buying for their livelihood. But what does someone have to sell who, as employee in a factory, makes only a small part of the final product? A realistic answer should have been: What is sold is the product of joint effort, and each individual should receive his share of the proceeds. Instead, labour was plucked out of the production process and made into a separate but unreal market, the "labour market", in which "employers" and "employees" confront each other and where the "wage" is the market price. The labour market has turned the working human being into a commodity; serfdom, which was slowly being abolished for the peasants, returned in a new way in the industrial age.

Through the uncoupling of wage from the sales proceeds, wages could now only be fixed by the competition among the wage earners. In the general model of market economy, an unstoppable trend towards cheapness is deeply rooted; consequently, the same applies here as a matter of course. Theories of impoverishment came forward; the most conclusive among them is the "subsistence theory of wages" by David Ricardo and Ferdinand Lassalle. It concludes that under the dictate of the labour market, wages will come to equilibrium at the subsistence level. Thus wage injustice came to take the place of price justice.

To whom belongs the difference between product price and wage, as price of the labour market? Division of labour implies that a factory is a production centre where workers manufacture products for others with the help of tools and machines, labour and intellect, brought together and organised under the leadership of managers. The time until the products are sold, but also the production plant, normally have to be pre-financed through capital not needed elsewhere during this time. With respect to wages, the workers were ruthlessly exposed to the new structures of divided labour, while on the side of capital, the old structures of ownership were all the more protected: a company belonged solely to one group out of all those involved - the investors. But ownership naturally carried the sole claim to a share in the proceeds. Since in the initial phase the entrepreneur himself, or his relatives were usually the owners, entrepreneurship became disastrously connected to ownership. - In view of the catastrophic situation of the factory workers, there was only a small, easily understandable step to the position: Withholding their fair share of the sales proceeds is tantamount to fraud against the workers, its appropriation by entrepreneurs and investors is social robbery (*privare = to rob*). While the theoretical explanation by Marx and Engels may be dubious, in decisive points, the outrage was so deeply experienced at that time that theoretical shortcomings and errors did not carry weight.

As the fathers of market economy, following the characteristic trait of the age of science, did their best to base their model of economy on natural science and mathematics, so did the critics: In scientific terms they wanted to prove that market economy would bring about its own death; that it would never be able to do justice to the workers; that the problem could

only be solved by the working class taking economy into their own hands. Until today, the scientific character of socialism has been the foundation and the pride of the socialist movement, "proving", as it does, that the interests of humanity coincide with those of the working class by their very nature. But how does a moral demand for more social justice become a natural law? For this purpose you would either have to show that in the ultimate analysis, moral impulses are decisive in nature; or you declare man to be "natural" so that in him too only the natural laws are at work. Marx and Engels chose the second option.

The starting point is "Dialectical Materialism". Through it, Hegel's principle of development of dialectics is turned from a spiritual law into a materialistic one. Human consciousness is reflection of matter on a qualitatively high level. In this way, the human spirit is incorporated into matter governed by natural laws. - In "Historical Materialism" this principle is transferred to history. Economic life is not part of a culture - culture reflects the economic conditions. In the lap of old conditions, new forces of production ripen; they come into contradiction with the existing relations of production and revolutionise these. Such a moment has been reached at present. The working class represents the new productive forces, the bourgeois employers represent the out-dated conditions of ownership; revolution starts with the expropriation of the expropriators (that is those who until now have expropriated the just wage from the worker) and ends with the take-over of society as a whole by the working class. Now there can be no more exploitation; existing contradictions can be solved by evolution, and will lead towards a communism where everyone contributes according to his capacities and consumes according to his needs, in brotherly and peaceful community. - But how can justice be achieved in social reality? Unless you are prepared to be content with the dialectic nominalism that a socialist economy is fair by its very nature?

Until recently, , there was agreement, by and large, in language within the socialist camp concerning the critique of market economy's capitalism, but the ideas and measures of achieving one's own aims have been quite diversified. It has become customary to describe socialist economies as "centralized economies", more often, however, though somewhat inaccurately, as "planned economies", according to what so far has been their most outstanding characteristic. - For a long time the "ex-post justice" of market cheapness so highly praised by market economists had to serve as a seemingly objective excuse vis-a-vis the working class for rationalising the heaviest wage injustices. In this way then the principle of spontaneity, as driver of market processes, came under criticism. Starting out from the inherently correct assumption that reason is the characteristic of modern man, the attempt was made to take on the task of producing exactly what is needed by way of rational planning. With the vast amount of products and product parts required in larger economies like a state, this resulted in a gigantic mass of computations whose temporal and staffing dimensions also had to be determined by planning. Who needs what? When? How much? etc. - nothing can be left to chance. These plans cannot be non-committal or else the whole economic system would fall into confusion. Therefore the planning quickly turns into steering by regulation; a norm is imposed on whose fulfillment everything depends, whose fulfillment if necessary even has to be forced. The spontaneous economic order was now replaced by a centrally programmed one. Because of mutual dependencies, its course can be adjusted only with difficulty during the planning period. Justice would now be achieved if the individual did in fact receive what he had submitted as his needs. The price problem turns into a pure question of rationing which could be settled even without money. The rule of prices is replaced by the rule of the planning authorities or indeed the planning bureaucracy.

Thus the question of economic justice gets linked with the political system. According to historical materialism, economy's claim on culture is total since the new economic conditions shall also determine culture. With the argument that neither society nor the individual human beings had yet attained maturity for socialism or communism, Lenin supplemented the idea of "dictatorship of the proletariat" by the "primacy of the party": The party has the task and the right to play the leading role in all areas of society. Individual volition is subrogated by politi-

cal class representatives, giving bureaucratic standardization the upper hand. Dialectical nominality suggests an identity of interests (we are the state; what we do is therefore also in your own interest) which puts all institutions beyond criticism, allowing them to develop a life of their own which so far has inclined towards bureaucratic imposition. In this way, the concern for justice seems to be collectivised.

Theory postulates the identity of economic, political and cultural concerns and their actual integration in the practice of socialism, but at the same time, the individual citizens are deemed too immature to conform to ethical conduct as required for communist conditions. In the name of future humanity, present inhumanity is imposed.

The result is an incessant sequence of pedagogical measures of control, ideologisation; indoctrination, motto preaching and confessional declarations etc., which has to be repeated in each generation.

This was and is the tragedy of scientific socialism: that it is built on idealistic ethics, while at the same time, owing to its theoretical materialism, it rejects the one and only power which could effect a transformation of morality: man as a spiritual individuality. Man engenders morality not out of his instinctive nature but only against it. Therefore the effort to overcome egotism is self-education of the ego, the only form of education adequate to an independent self that is appropriate to human dignity. Much as it belongs to humanity's progress to let reason become the basis of shaping our lives, not least with respect to social justice, it proves detrimental to let ideas regulate in general and apriori what must be decided in the concrete situation by the protagonists' reason. Any attempt to rationally determine societal justice "ex-ante", i.e. from first principles, ends up as a "thought-up perfection", floating above the human being as an ineffective and illusionary "anthropological overestimation", or demanding the moral functional submission of the individual, which - given sufficient anchorage in society's power system, will even be enforced. "Ideas must be confronted perceptively, and actively experienced, lest one be trapped in their bondage"¹³

The Impulse for Threefolding the Social Organism

It has become evident that the question of a usable economic model can only be answered against the background of our whole humanity.

Until now, and at least for us in the West, Market Economy has provided a continuously increasing flow of goods and services, with prices steadily falling on an absolute or at least relative scale. This is taken as an expression of healthy and fair social conditions, without regard to the economic behaviour of individuals. However, this prosperity is bought by surrendering the possibilities of development of the self. The individual is deprived of the only viable form of freedom; he is fettered to his instinctive egotism, and can perceive his fellow-worker merely as an object of exploitation in favour of his own interests, or as a greedy competitor. For in order to perceive himself as free, he would have to be able to confront the compulsiveness of his egotistic nature with the restraining power of his self, owing to his origin from a different, spiritual world: a power that could never arise out of an abstract conceptuality of self or from a mere imaginary self.

While market economy wants to preserve a natural state of morals belonging to the past, the socialist economic impulse looks to a morally advanced human being of the future who obviously - in view of present reality - does not yet exist in the required quality, but who must be

13 Rudolf Steiner, *Philosophy of Spiritual Activity*, 2nd appendix .

brought into being if social justice is eventually to be ensured for everybody. But in trying to prove the natural inevitability of such moral improvement, the reality of self dissolves into a mere mirroring of material and economic processes. A mirror self, however, is incapable of freedom; for that it would have to be independent of the processes it is reflecting. Nor is it capable of development, lacking existential independence. A human self made empty by such an ideology needs to have the aims for a better world of to-morrow programmed into it by slogans if the will to work for these goals is to be mobilized. A group of people - normally the party - is needed to think up a rational image of the future from which to deduce action Programmes for the individual. The leaders' reason turns into compulsion by making the individual the servant of a superordinate plan under which work becomes an obligatory norm.

A strange consequence emerges from this analysis: that within both of the above models, the demand for social justice which arises within modern man by virtue of his general equality can be fulfilled only by denying the self or by arresting it in an earlier, lower stage of development. The Basic sociological Law is felt to describe not a path of development but a dead end, as soon as the "free unfolding of individual needs and capabilities" were to apply not only to elites, but to everyone.

And yet the situation is different. The inadequacy of the present solutions results precisely from the fact that the "Self", striving for independence and establishing its existence, is regarded through the eyes of earlier, out-dated forms of society. *The task is not to find a societal order that functions despite the "Self"; the quest is for an order that takes this real "Self" as the starting point of social development and proceeds to organise itself, using its own forces, in such a way that the "Self" can unfold and become socially creative.* For such a form of the social organism to be conceived, the "Self" must be recognized as a spiritual reality, and the laws of its development must be researched and understood. The true criterion for social concepts is their correspondence with the inner situation of modern man and with the requirements of social life, and Rudolf Steiner's idea of social threefolding is particularly committed to this. The idea of threefolding the social organism is not a program of which to convince others; it is demanded by the individual when he learns to better understand himself and his relation to other people. It is not a matter of mankind having to be won over to the ideas of a single individual; the ideas in question express the desire of mankind today.¹⁴ The connection between the social organism and the mental situation of today's human being shows itself to inner and outer observation. Until recently the individuals' thinking, feeling and willing were molded by the beliefs and traditions of religious world-views, by the ways and customs of cultural communities and by the desire to be a harmonically adapted, useful and recognized member of the existing social communities. We ourselves have taken apart this "natural" unity in the life of the human soul. It is our very self that rebels against such collective conventions of the past imposing their will on us, and which wants to arrange its own life out of its own present consciousness. As the self separates the previous, natural configuration of its mental forces, it must take care to unite them by its own activity. Separation is the precondition of the new, higher unity. And what goes for the mind is also true for the exterior, i.e. the social organism. Here, too, what comes from the different sources of societal power must be separated so that the individual's social life can take its self-determined course.

The connection with modern man's physical situation results from the question of how the human physical organism is formed in such a way that within it the self can achieve conscious ideas of the world, individually experienced feelings and acts of will that change the world. An anthropology based on spiritual science shows that the human body is not a physical and chemical unity, but a polarity of forces connected through a rhythmically mediating

14 Important groundwork on threefolding can be found with Schiller („The Aesthetic Letters“) and Goethe (“Fairy Tale of the Green Snake and the Beautiful Lilly“).

middle. Thinking finds its physical expression in the neuro-sensory system which is centred in the head; willing on the other hand finds its physical manifestation in the metabolic system and the extremities; these two poles are connected by the rhythmic system of heart, blood circulation and breathing in a dynamic middle.¹⁵ The social organism is structured in a similar way: On the one side we have cultural life, which is devoted to education and to the nurturing of the individual human spirit, on the other we have economic life which is solely assigned to the production, circulation and consumption of goods and services for the whole of society. Between them lies the political-legal sphere, which protects both areas from encroachment while connecting them through transitions. Compared to the human body, the social organism is upside-down, i.e. it “feeds” on what the individual brings into social life in terms of impulses and needs. We could say that the cultural life is in some way the metabolic system of the social organism.

The comparison of the social organism with the human physical organisation is not to be understood as an analogy, as if an observation true for one area were to be transplanted into a different context. “Quite the contrary: “No attempt is being made to transplant some scientific fact to the social organism; quite the contrary, it is intended that human thinking and feeling learn to sense the vital potentialities in contemplating the natural organism and then to be capable of applying this sensibility to the social organism.”¹⁶

The spiritual correspondence between the two organisms becomes clear as we observe and understand the social processes. Since more than two centuries, all of mankind feel deep sympathy with the ideals of the French Revolution, “freedom”, “equality” and “brotherhood”; for all this time, however, mankind has been searching desperately for forms of social life which allow all three ideals to be realized simultaneously. If any one of them were to be abandoned, we would rightly feel that our own being had been severely disfigured, along with the community we live in. And yet reality seems to permit only partial realization. Often we hear in the world that we have to choose between freedom (in liberal market systems) and brotherhood (in socialist systems). While the universal human rights, regardless of their constitutional guarantees, are flouted everywhere in the world by alliances of legislature or executive with all kinds of influence groups and power manipulators. It is precisely this contamination of interests within the centralized state - imitating in a profane world what was justified and spiritually motivated in former times - that makes the individual powerless unless he is part of the majority in power. In an undifferentiated social organism, the co-existence of all three ideals is impossible, but that would change immediately if the three constituent areas of social life: culture, the politico-legal system, and the economy were separated from each other, bringing them back into their proper spheres of action, and removing all undue cross-influences between them in the interest of the desired development. - It can even be shown, following the lines of approach chosen in this chapter, that equality can not be realized at all - indeed, that it will be turned into its opposite - unless freedom is granted to the individual spiritual initiative, and solidarity is strengthened on the side of the economy; all this despite the fact that equality was the first of the ideals to appear and to be legally established.¹⁷ At this point, this short outline rejoins the topic of associative economy that is essentially demanded by the economy.

Tacitly, everything that follows will have to be regarded under the aspect of: How can the needs and the capabilities of human individuals be promoted by the social organism?

15 *Rudolf Steiner, The Case for Anthroposophy, London 1970; Towards Social Renewal, London 1977.*

16 loc. cit.

17 cf. the chapter on The Basic Social Law in this book.

Associations - The Basis of Economic Self-Management

It has already been stressed that the division of labour in modern economy has made all individual life dependent on processes of exchange or barter. But at the same time, this “commercialization” of the human being is only an expression of the human condition in which we exist for each other and are mutually dependent on each other. Cooperation is the only way in which the interplay of these states can be organised in a way compatible with human dignity. Clouded by prejudices and with its Darwinian approach of the “struggle for existence”, market economy cannot do justice to this. From the viewpoint of absolute and perfect competition, an understanding between the two halves of the market is neither possible nor necessary, while within each half of the market it is downright dangerous in that it undermines competition, which will raise prices. For Adam Smith a cartel damaging the general public is already in the making when two entrepreneurs meet for tea while. Silvio Gesell fears a weakening of the driving force of egotism by the division of spoils that follows every agreement. The conditions under which a conversation across the trench separating supply and demand might be possible and even desirable have hardly been studied so far.

So far, a cooperation between the producer’s goal of high selling, and the consumer’s goal of low buying, appeared theoretically impossible. This is exactly the basis of associative economics. For a deeper cognitive penetration of economic life, with a view towards healthy and fair conditions, is not possible if the social reality bears in itself a cognitive jump, a limitation of our social cognition which cannot not be surmounted. Yet the first unbiased glance will show that communication between one person who needs something and another willing to produce it is natural and indispensable. *Associations are organs of communication between the two poles of production and consumption. The tension between interests opposite but with equal intention, namely that the event of delivery and exchange really should take place, calls forth fruitful economic cooperation and creates a “more” while communication between interests of equal direction leads to a “less”.* - In addition to the joint interest of realizing capacities and satisfying needs, they have another thing in common (though often forgotten): that ultimately, everyone is a seller (in his role as producer) as well as a buyer (as consumer), albeit not for the same product. More than anything else, it is the system of wage-for-work that has corrupted most peoples’ awareness of this parallelism of interests. - However, there is another, ideal mediator in the social process: trade in the widest sense. Being neither producer nor consumer of his trade goods, the only thing of importance to the merchant is that the process of trade or circulation should take place, generating turnover. This can only be brought about by mediating both sides. He can do that because he knows the interests of both sides, and their capabilities, more intimately than they themselves. Circulation must therefore be represented in every association, beside production and consumption. But communication and mutual understanding will become virtually inevitable when the representatives of the associations can speak for the majority of the market participants. If the understandings are concluded before economic acts are started on a larger scale, then it becomes possible to freely create desired economic circumstances. - Now the real societal interest can unfold: it is not the outsmarting of others at all, it is the best possible way of implementing a needed service.

However, associative processes of this kind can develop only if none of the partners claim privileges from outside the economic field. This is precisely what is wrong with today’s private ownership of the means of production, including capital and land property. Only when the possibility of privately exploiting such ownership ends, i.e., the means of production become “unsaleable”, can societal conditions take shape in which the rights of the entrepreneur are not derived from ownership but solely from his entrepreneurial function. - That would also open the way to a new relationship between the entrepreneur and his co-workers, in which a mutually agreed share of the proceeds would replace wages as pay for work. Basic working conditions, on the other hand, would no longer be negotiated between the parties of the la-

bour market but could be decided outside the economy, in the politico-legal sphere, maybe also by representative bodies of the cultural sphere. The economic sphere must no longer dominate the other spheres. - This question, and others of similar importance must here step back to let us continue pursuing processes which influence prices.

Market economists have a theoretical mistrust of sensible cooperation and of the replacement of unconscious market mechanisms by consciously shaped processes. The advocates of planned economy are just as sceptical about letting the individual into the planning processes. Where something is not able to be planned, where work cannot be normatively calculated, where the worker does not function precisely according to the plan, there planning and fulfilment are potentially at risk. - The rule of functionaries is diametrically opposed to the nature of associations. They are formed by people active in economic life or at least by their representatives. Personal experience and active responsibility are conditions for participation. They work not by abstracting and concentrating reason into a plan but by bringing together the potential bearers of reason itself. And reason is not set up as the compulsory norm regulating every detail of the future: out of their presence of mind the individuals give their actions the direction of reasonableness. Economic leadership is not executed by a centralist authority according to a bloodless and unreal plan, but by the associations as places of concrete, living human communication where mutual interest and understanding can unfold. These gatherings do not lead to plans initially but to agreements whose gesture of contributing in a spirit of solidarity allows the individual's capabilities and needs to freely unfold.

When we make a cognitive judgement, we infuse the details of our sense perception with fitting and contextualising concepts produced by our active thinking. Reality appears as we join the two halves into a whole, and we live right in it. - But social reality reaches beyond our own activity. The line from producer to consumer with its many branchings and cross connections involves a great number of working people. The individual is only a part of this reality, and his view is correspondingly limited. The missing parts cannot be thought up; consequently, any judgement on economic matters by a single individual will always be insufficient, or even wrong.

A social totality can only be formed if the various bearers of experience meet in associative consultation, bringing their partial realities together to let a social picture arise which then lives in the individuals involved, to become the basis of their joint decision making. - Experience accumulates through countless events, but it does not stop there by any means. Rather, the details coalesce and increasingly turn into an organ for sensing and judging situations. The associations rely on this organ, letting themselves be counselled by it in trying to understand the past, and identifying goals for the future. The awareness achieved in this way then becomes the starting point for individual decisions. Only associative consultations enable the individual to establish the state of his human dignity also in the social field: to act out of insight. - Experience must be included in the basis of social judgements if they are to be viable. When experience is again esteemed, its bearers will be esteemed as well. Ultimately, no one's experience is replaceable, precisely because it is truly individual. Especially in an age of steadily improving electronic data processing, the re-instatement of experience must be a central task, in order to counterbalance sheer technical feasibility - but it needs to take counsel from a free cultural life that does not neglect the spiritual depths of the world.

Naturally the work of the associations would largely repeal the principle of competition; for the market economist, this would seem equivalent to the end of economic and technological progress, and the beginning of ruin. Of course it is true that under threat of life organisms can perform higher than in "normal life". But they cannot do so permanently; otherwise they are under threat of collapse from which there is no recovery once emaciation has become advanced. How can one show the balance of fear of life in relation to increased performance? And, is not a large part of the efforts invested into the struggle for existence, simply wasted? It can be observed on the one side that under competitive cost-push, rationalisation reduces

production costs for many goods but that at the same time the costs for marketing and advertising rise continuously. But even assuming that in an associative future production might be lower, and above all, less speedy: Where in the world is the arena through which humanity has to run, who determines the length of the tracks and, most of all, the time in which they have to be covered? And who would be the referee to decide about adequate performance, and who the functionary announcing the competition and giving the starting signal? Such games with their rules are only thought up by he who cannot find within himself a motivation for the human being's own development. In associations he will imagine lethargic people falling into idleness and half-heartedness because they have been barred from egotism. What this view misses is that such conduct is exactly the result of behaviour fostered by market economy. A new impulse can still arise once the social process is based upon truly human relations.

Stabilizing the economical conditions while maintaining the freedom of entrepreneurial initiative and the freedom of realising individual wishes in consumption is only possible with the highest possible flexibility. This flexibility stands contrary to today's thinking in terms of steady state and security. It can be achieved socially only when changes no longer cause existential fear. Associations could contribute substantially towards this goal: reduced pressure of competition would slow down social regrouping processes; abolishing the attitude that companies are the capital owners' private property, arbitrarily saleable, would take pressure off companies and make cooperation or even capacity reduction easier; industry-wide financial solidarity would bring about what is presently achieved within large corporations by diversification; production displacements would become easier to manage, facilitating optimal use of existing production centres.

In the last case, as in earlier instances, the question of motivation will arise. For with pure egotism such changes would not be possible, except for a few whose behaviour could be accommodated and eventually made tolerable within the overall structure. Lack of motivation is feared by some, but that could only arise if associative behaviour were imposed by administrative "command" - which would be contrary to the spirit of what is proposed here. As organs of economic life, associations could make such inner reorientation possible, but they could not bring it about; this would have to come from an education system orientated towards a deep understanding of the human being. But associations do create meeting spaces for social interests in which such understanding can deepen, grow and become concrete reality. In this regard associations are the organs that convey awareness to the economic organism; action impulses triggered within it show the role of the will. By virtue of this dual character they have a harmonising effect between consumption and production, the poles of demand and power in economic life.

If we were to accept an associative economy, what would be its effect on the determination of prices, and what about the problem of fair pricing?

Price Formation as the Centre of Economic Administration

So far, the following essential functions of associations have emerged:

- Interests of production, circulation and consumption are represented in them in equal ways and on equal footing. For the path from demand to its satisfaction constitutes *one* context.
- The variety of interests and the mutual interweaving and connections will lead to different associations, with a network of associative connections resulting from them.

- Each association is autonomously responsible for that part of economic life out of which it grows. For questions going beyond a single association, appropriate committees will form. Their size and the manner of representation etc. will emerge from practice if the principal objectives of associations are steadily kept in mind.
- Division of labour assigns to everyone a small section of effective social action. The experiences gained here are brought into the life of the association by the individuals. Valid social judgements from which to derive social actions can emerge only from the concerted effect of these contributions when they are brought together to create social reality.
- Rule of functionaries is prevented by the principle of experience.. Only persons who actively and responsibly take part in economic life will have a say.
- Through associations, the principle of competition will be transformed into cooperation in solidarity, with incalculable synergy effects. Interest in one's neighbour and his livelihood is a necessary condition of this. It can be strengthened and broadened through the meetings in the associations.
- An associative self-guiding economy takes over the administration of financial affairs within the rules of the game laid down by the legal-political sector of the society.

So far we have emphasized the necessity of price formation, in contrast to planned economies. On the other hand we have criticized the price formation processes in market economy. What changes would an associatively guided economy bring for price formation? Obviously, no complete price theory can be given here. Nor would such theories be necessary any longer in their previous form. For the sophistries of previous price theories are due to the fact that one is looking for external variables which influence price formation, to ensure that price remains an "objective", i.e. calculable quantity comprehensible and assertable through the market mechanism. But most of these computing tricks fall away when the partners involved in price processes themselves gather to explain what otherwise is only calculated. In economic terms: The price is no longer only a function of supply and demand, but becomes the object of reasoned agreement.

This solution of the present market equation also fits our common sense understanding of the objectives of economy: How and under what conditions can given needs be satisfied by products, what should they cost, and how can it be achieved that the bearers of demand can also pay for them? Against this exposition, the objection is made that it is important to have at least one clearly defined quantity in the otherwise so restless economic process: price. Its inclusion into the scenery of planning is felt to make everything relative. - The objection hits a half-truth inasmuch as it includes the question about the possibility of conscious orientation. Relativity however is the normal, healthy condition of social life: it is about relations, the relationships between people. Insofar economic science is a science of relationships, and economic life is about the arrangement of relationships. "Everything flows" is an experience of diving into the concrete, never static living relationships between beings. Intellectual man shuns the state of the social being as a threat to his consciousness that prefers to keep to the clearly definable. And in fact this consciousness is necessary for us today, but it would founder in the flowing current of social life if not the organs enabling us to swim were formed at the same time, organs which allow us to keep our head "above water". These organs which give us conscious perception of the living currents of economic-social life are the associations.

A brief overview will follow of the different kinds of behaviour of the economical models treated here with respect to price forming, but before this, the "what" of the price has to be scrutinized once more. - Price comes into our consciousness as a discrete amount of money per product unit, but it turns out to be completely devoid of content, just as if we encountered

a price label in an unknown exotic currency. Content only appears when we picture everything that could be bought with that amount. Only when we have put the individual price into relation to all other prices, assessing the spending power of our income, we have arrived in social reality. Prices therefore express barter relations. - Remember that only goods or services can have a price; when other relations have a price on them, e.g. labour, means of production etc., these are actually pseudo-price relations. Remember, too, that only those relations can be socially discussed and regulated that can be realized in the social world: a product which is not for sale is not a commodity; my personal esteem for a product is a private matter unless it finds expression in a purchase. Thus, price formation can only concern things that people produce and services they perform for each other.

In price, the economic process comes to rest, enabling our consciousness to form a clear cognitive picture. As far as this concerns a past business period, it is an end-point (the production process is finished, the income process of the buyer is dissolving in the purchase). But at the same time, price is also a seed point for the next business period. With the proceeds, the producer can create the requisite conditions for renewed production, while the buyer now becomes consumer, strengthening the forces that will lead him to a production process of his own, albeit in a different area. To pay means in principle to recommission; payments have credit character.¹⁸

The decisive question now is how high the price should be. At first sight this depends, on the one hand, on the intensity with which the impulse of our capabilities focuses on the making of a product and, on the other hand, the urgency with which people on the other side experience a demand, and actually request the product. The bridging of this tension keeps economic life going in the first place. It has its roots, on the seller's side, in the general conditions of production, (i.e. work related questions: how long, with what capabilities, what technical support, how efficient etc.); on the buyer's side, in the general circumstances of life, the "standard of living". Within this context the question of fair price applies. For the seller, the price must create enough income to sustain him and his dependents until a saleable product has again been made; for the buyer, the price must be such that he can afford it out of his income. Both conditions must be satisfied for a continuous production of goods. - Economic scientists have often tried to explain the production conditions from the point of view of the expenditure of the work requirements, as the more objective side of the price process, while the behaviour of the consumers is seen as the subjective side. Such views are too narrow because behind the company's wage costs are the general living conditions, and behind the living conditions of the buyer there are again the production conditions of his work. Both sides are objective and subjective to the same degree. The distinction arises only from the division of labour, and it is dissolved again in the price process. The price itself is not at all the reality; reality reaches beyond it in both directions, and price is just the representative of reality.

In a striking image, price can be compared with thermometer readings.¹⁹ Like mercury, money in the form of price indicates the state, the "temperature", of the social process. And no one will hit upon the idea of considering the thermometer or the mercury itself as coolness or warmth, nor as their cause. Therefore, if we want a mental image of the social process, the price must form as freely as cold and warmth can get to the thermometer. This is the real price, comparable to the short-term, balance-restoring market price of market economy.

However, we do not simply accept the thermometer reading; by various means we seek to make conditions comfortable for ourselves. We have an objective, which does not adapt to external temperature but is dictated by the conditions of our own being. We take our mea-

18 cf. Note 17.

19 Rudolf Steiner, *World Economy*, Lecture III, <http://wn.rsarchive.org/SocialIssues/19220726p01.html>

surements according to the difference between actual temperature and desired temperature. And here again no one will imagine that anything essential can be achieved by putting a match to the thermometer when he feels cold. At best he or she could make someone wonder about his own state, when he is shivering despite an unexpectedly high thermometer reading. - In the same way, in social life it does not make much sense to directly change prices. Here again, associations will be able to form a realistic idea about a socially fair price. Congruence of actual price and fair price is the declared objective of associative economy. - Part of this is an exact and extensive monitoring of prices which includes the internal view brought in by representatives of production as well as the general living conditions. For action, there are two possible directions, like heating or cooling. When the actual price is above the target level, then either the quantity of production can be increased, e.g., putting in more work plus the required investments, or productivity can be raised. The choice will depend on the analysis of the causes (excessive demand or excessive production costs). When the actual price is below the target level, the opposite measures will be taken, though with the significant difference that a level of production once attained will not be left again. This would make no sense, and in an associative economy the additional profit which could be said to be due to circumstances of the whole economy, would not seep away into private property.

In summary, the following approximate picture of price relations emerges:

1. Market Economy Model

Interpretation of an actual existing price: A price has formed under the influence of supply and demand as well as the competition conditions in such a way that it establishes a short-term balance between both sides, clearing the market. In the absence of any superordinate planning authority, this resolves the quantity discrepancy between individual ideas and macro-economic necessities. In theory, every company could grow up to the size of the whole national economy, at the expense of its competitors.

Finding objectives: The actual price at the end of the preceding business period is taken over unchanged as the planning quantity for the following period. By himself, the producer cannot change anything in this regard; he must adapt his productivity and product quantity to it, and he will try to maximize his profits within this framework. The balance of the macro economy is outside his scope; he only perceives balance ex post.

Consequences: Through the mechanism of competition, the sum of uncoordinated individual actions triggers a price reversing tendency which in all probability will lead to a new imbalance. This new imbalance now triggers individual counter actions, and so on. - Under optimal conditions the price oscillates around a hidden balance of supply and demand. The oscillation is limited on the one side by the consumers' disposition to buy, on the other by the companies' production costs. The latter however turns out to be downward changeable through entrepreneurial and technical innovation. Enough competition will move the mid-point of the oscillation ever further towards cheapness, enforcing a general increase of spending power and prosperity for all. This is not the desired objective of the market players but a consequence of competition; therefore producers strive by all means to avoid this plunge into cheapness.)

2. Command Economies

Interpretation of an actual existing price: Centrally planned economies tried to project demand and production in balance, ex ante. The planning calculations need to be based on real quantities. Consequently, there is actually no space for prices as understood in market economy. Normally prices were understood as a mere transition problem of socialism; they

were used primarily to grant consumers a certain freedom as opposed to sheer rationing. The actual price is politically desired and administratively decreed.

Finding objectives: Price can not be a help for consciousness because officially, it can not be affected by market events. Momentary consciousness occurs in the form of checks which may be caused by political changes or by problems of acute over- or undersupply. -

Command economies also know a second price: the black-market price that forms in a secondary market. It balances the tension between actual supply and demand, which officially remains neglected. The extraordinary height of black market prices depends mostly on the difficulty of obtaining the black-market goods. Naturally this market price is unwanted and unloved, but it is tolerated by necessity. Life cannot be administered against the will of those involved. - Occasionally, planned economies do work with money and price. They then face the problem that the supply of money and the supply of goods veer away from each other, causing difficulties in the control system - not least with regard to people's attitude towards their savings.

Consequences: If changes are not introduced for other reasons, the old price is also the new one. The development of the economy in the past period has not affected it because it cannot affect it. If in the long run one does not want to lose the ground under one's feet, extensive shadow calculations must be made on "what things actually should cost".

3. Associative Economy

Interpretation of an actual existing price: The actual price is the one which forms in free intercourse between the persons involved in the economy; it is an image of social reality. Here associative economy bends towards the pole of market economy. This becomes clearest in agriculture where unpredictable variations of product quantity due to "freaks" of nature are exposed to the pure market forces in the harshest way (foodstuffs spoil faster than most other wares). On the side of industry, however, an openly cooperating economy has many possibilities of avoiding premature and therefore unmarketable production, right up to production to order. - It is in this early phase that associative economy knows its second price. This is an imagined target quantity resulting from mutual consultations within the associations, in which experience from production unites with the circumstances of life.

Finding objectives: In this *imagined* price the target quantity of the actual price is predefined. The congruence of both quantities is the balance, which is assessed *ex ante*. In keeping with our opinion that it is our task to change reality, the participants of the associations themselves suggest the means by which they will fit the actual circumstances to the desired ones. Contracts are concluded between the members of the associations, but also among the associations themselves, in which the course towards the target manifests and stabilizes itself.

Consequences: Only what is not achieved through specific measures, such as the aforementioned changes of production and productivity, has to be brought into balance by market methods, *ex post*, at the end of a business period. As before, "business period" does not signify an actual, specific point in time but a period appropriate to production and consumption cycles, that is to the inherent rhythms of economic processes.

In some, such an aphoristic presentation might arouse the feeling that depending on one's own present point of view this is either an entry into planned economy or a relapse into market economy. If that is to say that associative economy has connections to both streams then something quite true has been observed. As a matter of fact, both elements are needed: compensation for the past in the form of the actual price, and the reasoned target price which is based on social experience, in order to shape economic life in such a way that it can safeguard our livelihood without destroying freedom in the cultural sphere and equality in the le-

gal-political sphere, while developing in its own area a solidarity which is at the same time both common and individual, hence simply brotherly.

Once more it shall be emphasized that difficulties arise when legal rights interfere with economic processes, claiming a share of the profits without having contributed to their generation. Primarily this concerns property rights: only too quickly do they turn into property wrongs. Those who might feel urged to defend market economy at this juncture (and with regard to property we all are afraid of losing something) should reflect on the contradiction that, for instance, the unlimited possibility of buying and selling businesses favours concentrations of supply which destroy the market mechanism of competition among providers of goods and services. Social judgement and action lose their basis where such price corruption occurs. Of course this includes also other phenomena, such as the competition with low-wage-countries. Distrust of everyone and everything is the consequence. Associative economy alone is capable of confidence building. By creating awareness, it puts a kind of protective casing around the exchange relations of the economy. This diminishes considerably the individual's worries about existence and may even lift them altogether. Not so much for the person who regards the social field only as a desk at which to register his own demands, but for one who wants to contribute to the needs of others, and who therefore ought to be enabled to do his work in the interest of the others!

Finally an objection has to be dealt with: how can a region of associative economy act within an international setting of competition that is not under its influence? - It is part of the attitude presented here to regard any national element in economy as irrelevant and interfering, even obsolete. Associative economy is neither national nor international but simply human. Nevertheless it can be useful to establish economic borders so that "good social quality does not get displaced by bad social quality" (to paraphrase Gresham's monetary law). But the borders should have different consequences: Money collected through customs should not be fed into domestic finances - a misappropriation happily practiced by rulers since the olden days - but should be used for the development of global economy. After all, this is where the root of the excessive cheapness of certain imports lies.

From Justice to Objective Sense of Solidarity

Aristotle, in his meditations on a just price, already indicated the direction with intuitive clarity: everyone is both producer and consumer; when he no longer uses for himself what he makes but sells it to others, this unity is torn apart; the price has to restore it so that in the end a day's work is exchanged for a day's work, a life's work for a life's work. To ensure this, prices have to be in inverse proportion to productivity: when the hatter makes ten hats in the time the tailor needs for one jacket, then one hat must cost 1/10 of a jacket). All savings, whether due to individual ability or superior productivity, and all product improvements then flow to the consumer's side and end up improving the general living conditions, in accordance with the conditions and sense of justice, that everyone should contribute his share to the circumstances of the community to the best of his ability. Thus price is neither a measure of work input nor an expression of personal esteem of an object but solely a social phenomenon, the regulation of a relation. The price is the centrepiece of all sales contracts, a "peace agreement" within the contract.

This approach may appear essential to this day. But it must be developed further for our present times under the aspect of modern social circumstances rooted in self-awareness and self-reliance. Some of the most important developments to be brought about by an associative economy shall be mentioned:

1. It has been shown that in price formation working and living conditions ultimately meet and are brought into a fair relation through the life experience of buyer and seller. In modern society which is ruled by division of labour, this general life experience no longer accumulates automatically: on the one hand there is the global expansion of our frame of reference, on the other hand there is the enormous acceleration of socio-economic development which negates the constancy of conditions necessary for experience to become effective. This does not only apply to working conditions, where in some respects experience is already seen today as a handicap for the acceptance of new techniques; it also applies to consumption whose increasing individualization no longer permits comparisons.

This is where associative economy sets in by introducing into the social fragmentation wrought by the division of labour an organ through which the fragments can reunite into wholeness. Associations build upon life experience; at the same time they allow the expansion of this experience, supporting compassionate immersion in the social conditions, laying an experiential base for the sense of justice. *Associations must replace what in former times was given by the living conditions themselves.*

2. "Distributing justice", i.e., fairness, can no longer be imposed by the individual; the same holds for "compensating justice". Who determines the fair price and punishes its violation? In transparent living and working circumstances that can be understood and experienced, there is no need for an authority because the conditions are so obvious for all that every violation of justice would be perceived and branded as fraud. Prices are public today, but the living conditions behind them are hardly known, and above all, they are without any influence on the purchase transactions. In addition, unfair pricing is a social peccadillo rather than an offence; it becomes an object of judicial action only when governmental regulations have been violated. As has been shown above, any other regulation would turn every participant in the economy into permanent criminals because, by tendency, a single individual's judgement is always wrong in the social context.

Market economy therefore strives to establish the market as the "highest court of justice", while the centrally planned economies give this role to the political authority which makes and administers the plan. But reason does not hover above humans; they themselves must put it into action. Associations, as assemblies of those active in contingent work processes, are not only organs of experience but also of reason. Reason steps in on the basis of experience, not from realms superhuman or extra-human, but through the reasoning of their members. The forces of the market, which otherwise remain outside the individual's consciousness, are increasingly brought into consciousness so that they can be shaped responsibly; the reasonableness of plans is absorbed into the sensible actions of the individuals. By consulting about what is important in the big picture everybody will know what he has to do in his place so that the overall goals can be achieved. The reference to the whole shows itself to the outside observer as social reasonableness; the fact that this is achieved through the actions of the individuals makes reason appear decentralized and self-acting. In this sense associations are not central command organs; where centralized decisions occur, it will be because circumstances require such a decision at those points.

3. This also changes the way in which justice has lived up to now in the economic process, or in which, model-like, it should live. The virtuousness of justice must appear in our actions, but it is no longer brought about from inside, personally: it arises peripherally, out of the social surroundings. It is not only personal ethos that matters: ethos must become objectively manifest in the shaping of processes and circumstances. Price injustices cannot be made good in the long run by charitable gestures; they must be altered in the direction towards more justice through associative communities. In this way the social relationships which find their expression in price attain the character of justice to which they have a disposition but which by themselves they cannot express. Price appearing in the radiance of justice reveals

the associative work as an artistic process, justice as aesthetics of social life, and the social organism as a work of art, all in continuation of what Schiller strove for.²⁰

When economy, self-managed within a threefolded social organism, is entrusted with the responsibility for price formation, and consequently with the creation and protection of social justice, the question immediately arises of how to include people who are not actively involved in the production of goods and services. "If a man will not work, he shall not eat." - This cynicism complies perfectly with the thinking of dialectic-historical materialism, but it is unworthy of serious discussion. Even when every indication of spirit and morals is rejected, we would be well advised, for reasons of common sense if nothing else, not to desire the realization of this principle. Statistics (for the Federal Republic of Germany, before reunification with East Germany) show that only one third of the population (or approximately 25 million) were in employment; life experience notes that the two major groups of the unemployed are children and pensioners, life phases that all of us go through. Therefore the slogan would fall back on its advocates. - For systemic reasons three major groups will be considered here in open-minded brevity.

To begin with, there are those who are not yet, not at present, or no longer active in the economic process (youth, invalids, retirees). Their income cannot come from the present price process. It must be taken as a share of the social product, just like the income of the working members of the society. It is essential that they should be directly involved in the sharing decisions, and that their share should not come out of taxation of work. This is the only way to make sure that these income streams can be accompanied by correct social feelings. It must sound strange to contemporary ears when the slogan "Enough with taxes" is meant to include the incomes that are presently financed by taxes. If someone believes that it is his generosity that keeps this group of fellow human beings alive, out of *his* income, he is a victim of social error - because in fact he has never been entitled to that income. In a society of individuals, everyone is entitled to his share *originally, or ex ante*.

A second group are those who make their work contribution to the community in public functions (civil servants). They too have to be supported through means of the general public. However, because their function is not due to their condition as fellow humans, but to their position and task in the community, tax revenue will be the appropriate source of financing. - Usually today taxes are excised from income, and for reasons of justice, they increase disproportionately to income. Again the system as it has been perfected today leads to completely incorrect social feelings which find expression (albeit for very egotistical reasons) in the complaint that "performance is punished". Phenomenologically there is something valid in this complaint. Assuming that associative operations have eliminated the worst injustices of income within a social organism tending toward threefolding, then a higher income from shares in the proceeds from goods and services is only the expression of an especially intense or profit-efficient social activity. The buying rights of money obtained in this way have been voluntarily ceded but have not yet been exercised in social reality. Who buys nothing demands nothing from society; he has only satisfied the demands of others. Therefore there is no immediate reason to tax such income.

The real problem arises only when the money is spent. At that point, goods or services are consumed; the social organism must make them available to the buyer. This is the point to which taxation can be tied. Purchase Taxes fit the reality of social life much better than taxes on income; with their help differences in demands can be compensated within reasonable limits, and the tendency towards fairer conditions can be supported from the consumption side. Not because somebody's work makes a particularly valuable contribution to society

20 Friedrich Schiller, *On the Aesthetic Education of Man, in a Series of Letters*, translated by Elizabeth M. Wilkinson and L.A. Willoughby (Oxford: Oxford University Press) 1067.

should he turn in a larger share, but because he is taking more from society. Here, too, feelings will come back to the right track in time.

A sub-question is that about taxation of money not spent - the capital assets. Money in itself is nothing; what matters is that it represents a claim on society, i.e. on other people, for a return service. It has to be ensured that such claims are called within a reasonable time, or forfeited. Once more, it is the unlimited "life" of capital assets which is the obstacle to the emergence of true social feelings. (At the present point, we will not go deeper into the problems connected with the unlimited lifetime of money. But in the legal-political sphere, it is well known that social entitlements may not last indefinitely. A more detailed presentation will be given in the last but one chapter of this book.²¹) It will be shown that savings first create a blockage in the circulation of money, with negative effects. But if the unused capital can be put to effective social use by others, as for instance in the case of loans for productive investments, then the blockage will even bring about an improvement of social conditions. The interest to be paid by the debtor compensates the lender for his taxes. Capital conservation is outwardly ensured in this way, but inwardly there is a continuous dynamic renewal.

No taxes however accrue for he who donates his entitlements to others, that is gives them away, regardless of the purpose. Whereas in the case of income tax proof has to be brought, for instance, of common public interest, which opens the door to all kinds of irrelevant procedures that obstruct and divert the stream of donations, no such examination is required in the case of expenditure taxation. This creates free-flowing conditions, which are of special importance for the third group.

This group comprises people who are by profession bearers of spiritual and cultural life. For Aristotle economy was still a subordinate science barely worthy of free man. The bearers of those former cultures were the very ones that did not live by their own economic activity, but from rights of disposal over agricultural property, trade, or from other privileges. - Today cultural and spiritual life is no longer reserved for a certain group of people. The bearers of cultural and spiritual life receive "payment" for their contributions in the same way as with payment for goods, or through voluntary allowances (donations). It is held here that only such spiritual and cultural life is justified today which is supported by the needs of people and their willingness to enable it financially - individually or as members of the society which is financially safeguarding the infrastructure of culture in the one or the other way. The task of economy therefore is to supply the individuals in question with the necessary means, while the legal-political sphere has to safeguard the feasibility of such transfer payments. Without doubt such a principle would at first shake up the cultural landscape and change it profoundly; some may fear that it would mean the loss of favourite cultural institutions. Nevertheless the principle of voluntary support is the only sound basis for modern cultural life. It is in the cultural and spiritual sphere that the principle of competition, which is about to be expunged from associative economy, will find its legitimate place of residence. There can be no claim to financial support in full-time cultural life except by free enablement: one can only be called and chosen.

Present Trends

The institutions and measures described, which have been added to the fundamental exposition for clarification, are not constituents of "the" associative economy but solutions such as

21 For a characterization of different viewpoints/aspects see H. G. Schweppenhäuser, *Das kranke Geld*, Stuttgart 1971, and other books/works: B. Hardorp, *Elemente einer Neubestimmung des Geldes*, Freiburg/Brsg. 1958; W. Latrille, *Assoziative Wirtschaft*, Stuttgart 1985; but also S. Gesell, *Die natürliche Wirtschaftsordnung durch Freiland und Freigeld*, Nürnberg 1949 (The natural economic order, Preface to the third edition, 1918, <http://www.appropriate-economics.org/ebooks/neo/preface.htm>).

the author thinks possible. What really must happen or will happen will have to be decided by those individuals who take up the chances and the competence of shaping the new social organism. In many cases practicability will have to be tested, and amendments will be necessary to achieve the desired goals. However, the goal must not be confused with the means: Doing something only because it is practicable is like carrying the target to the spot at which one had been aiming.

Associative economy is open for the creativity of the people involved in it. This openness, in fact, can be understood as an invitation for cooperation. To join, one does not have to pledge an oath on programmes, commit oneself to anything predetermined - just let oneself be guided by a comprehensive understanding of social processes and by a willingness to take a warm interest in the circumstances and experiences of one's fellow-workers in the social organism. Working in this area, one often encounters questions like "How should this or that ...?" Particularly when the questioner is an expert economist, one feels tempted to throw back the question to his own experience, knowing that many answers are actually there in seed form.

A survey of trends in the late eighties showed already many examples pointing towards associative economy. Especially in the former GDR, factories were encouraged to develop economic orientation, meaning that more attention should be given to operating costs and returns, bringing price formation into the foreground. Personal responsibility was to take over from central planning. There was growing recognition of the fact that only the individual can be a powerful bearer of action impulses, but that he can assume this role only if he himself sets the goals for his actions. - In the West, on the other hand, the forces of the market were being pervaded more and more by cooperative decision-making, particularly in the area of economic policy. Price and quantity agreements became usual in cross-border trading and with industries in difficult circumstances. In some way the Washington Consensus changed the trend. At any rate, economic processes, which were formerly conducted between unrelated companies, and thus subject to market laws, have become internalised by the formation of enormous trusts and international concerns; the market forces have to cede control to head-office planning, but also intramural solidarity. Production capacities are planned and coordinated on a global scale, operational losses of one company are compensated by the profits of another - something that would be denounced as utopian eccentricity if it were suggested to businesses not united under the common leadership of a concern; rivalling commercial banks are brought together in international consortia for joint problem solving; social communities - the states - supply funding for future-oriented development projects, or subsidise social transitions as in the integration of the former GDR (German Democratic Republic) into united Germany. All these measures are at core incompatible with market economy and its spirit of fairness in competition. Nevertheless political economy refuses to actively take up these developments and promote them further in the direction of associative economy, instead of accepting them in defensive toleration, as an exceptional fall from grace. A dangerous situation arises from this: the principle of income egotism remains undiminished while the "social" corrective of competition is gradually eliminated, inviting egotism to spread further and further, feeding on the social process.

One of the most important tasks of current economic policy becomes visible here. Up to now, egotism has been understood as the "essential", "sole", "strongest" or "natural" driving power of economic activity, that is as a driver of growth, and competition as its tamer. If competition disappears, only growth remains. But growth without a shaping force can become a tumor. In medicine we fight cancerous growth with all means, desperately searching for the source. In the social field, we do the opposite, cranking the mechanisms which cause growth more and more energetically. We demand growth because growth is wanted; we run up debts so that the economy may work; we consume so that production may increase; we sell arms for the sake of jobs; we lower prices for the sake of turnover. Wherever we look, the forces of social activity separate from their original social context; they are there for their own sake; in fact

taking a closer look actually because of their parasitic side effects: power and wealth. To the medic, the growing tumour is not a welcome gain in bodily substance, but a threat to life. Yet in the social field any indication of growth is welcomed, because growth already has become equated with development of life. In the social field we could learn much from the physicians.

But the reverse is true as well: the social process shows how the escalation of the centrifugal growth forces can be counteracted by the centripetal shaping powers of associative cooperation which act from the periphery inward. We carry these forces within ourselves. It is up to us to use them, and we can do so as soon as we become aware that we have within ourselves not only an egotistic, instinctive being but also the power of cognition which allows us to overcome and transform everything by the strength of our spiritual self. The impulse for associative economy calls for these powers to shape economy. It does not nourish illusions of "quickness" and "simplicity" of the changes required. Nor does it support the resignative inactivity of those who would preserve the present situation out of a lack of spiritual certainty.

Land is not for Sale - Proposal for a new Land-legislation

Preliminary remarks

The question of land-rights has continually accompanied humanity through the recent millennia. Since the time when land was no longer managed by the temples and gradually became private property, we have seen again and again that, as a consequence of these structures of ownership, individuals and whole peoples had to face dire crises, right up to serfdom. With land reforms always providing only temporary relief. While in earlier times the emphasis was more on agriculture, the problems of industrial land use caused by the tremendous industrialisation process and the housing issues due to urbanisation are now an added factor. - The question of land-usage is closely linked to the question of real estate-prices. In recent years in particular, a sudden rise in the costs of land procurement was observed, which exceeds any normal fluctuation and creates a financial burden almost crippling any socially oriented land-usage. Thus in 1989 in Germany only 180,000 out of the 450,000 needed homes were built. Whoever wants to acquire land is unable to save as fast as prices rise. - While in Switzerland a heated public- and political debate about the further development of land rights has flared up, such a debate is still largely absent in Germany. Also the political parties have hardly looked into this question over the last decades, whether on the right or on the left. Interesting work by the SPD [Social Democratic Party], e.g. "For a social land-right" by Volker Hauff, Hartmut Dieterich and Peter Conradi, already failed within the party. The authors of this study notice correctly, however: *"The discussion about a reform of the land rights is only beginning; it will increase in importance and severeness ... social changes are not handed to us on a plate."* - The development in the former GDR offered a huge and urgent opportunity to tackle the problem again from scratch. But the discussion did not take place. Following considerations hope to re-initiate this discussion.

While the necessity for a change in land legislation becomes more and more urgent, the direction and the path towards change are heavily disputed. Depending on the extent of the concern, on the assessment of the causes for this development and on the particular concept of land-rights, the proposals range from market-assistance, socially directed subsidies or fiscal interventions up to questioning the entire land-law. The present draft is radical, in the sense that it tackles the root of the problem, and brings a perspective which shows the inner connection between the specific measures that need to be taken. As far as these measures are substantiated, this is only to serve as example and help to imagine, not to anticipate real decisions.

The proposal will appear unfamiliar to some readers. But in light of the scope of the issue, an unbiased reading is hopefully possible. Since, in the question of land-rights, we are all affected one way or the other, it is likely to be the impact on our own situation, which will overshadow impartiality. But without everyone's willingness for change there will be no solution whatsoever.

In the proposal offered here, emphasis is put on what is socially feasible. At this point in the development, no unmanageable obstacles are to be expected. On the contrary, the radicality of the proposal allows for relatively simple and clear solutions to many questions, which could hardly be answered through a regulated market-solution. - The leading principle was, that the aspired solution in favour of the community must not lead to an unacceptable damage for the individual (principle for reimbursement) in the German Constitution GG Art. 14

(3)¹). The fact that speculative profit expectations will not be realised is not seen as unacceptable damage.

Of course, single measures aiming at overcoming symptoms may also be taken, such as rights of preemption, for the municipality or facilitation of expropriation in relation to municipal building-plans and building-legislation. However, this will hardly affect the direction, of the ailing real estate market. The danger is rather that from a certain point on, even proposals as the one offered here, will not be socially feasible any more, because of the continually growing dimensions of the problem. Then crises will dictate the future of land rights. For example, the Berner Zeitung from 24.06.90 asks: "Can real estate prices only be lowered by a recession?" The author argues that waiting for a solution being brought by crises, is not only uncertain, it's against human dignity. *The existing freedom to act constitutes an obligation to act.*

A special tragedy occurs in the new federal states after the German reunification. Even if one agrees with an obligation to compensate for state expropriation there would have been no need to resort to the old forms of land rights. Precisely because the new occupants did not acquire the land in the old way, it would have been easy to implement a new right of use. The German constitution even allows for this in its paragraphs on property and ownership: Article 14 (2) "Property entails obligations. Its use shall also serve the public good". Article 15 - "Land, natural resources and means of production may for the purpose of socialisation be transferred to public ownership or other forms of public enterprise by a law that determines the nature and extent of compensation."² In accordance with current law, the authors of the study "For a social land right" (s. above) assert that: "The constitution is allowed, at any point, to determine the socially necessary purpose of property, through direct legislation." The fact is that those in charge presently do not want change. The complicated arguments for the principle of "restitution over compensation", are just a smokescreen for this intention. Rather than taking a step forward in the issue of land rights, the emerging difficulties are accepted. - In the other former socialist countries, the discussion is still going on. But here also, the West is doing its best to implement our present land rights, which provide for the commodification of land. This contribution intends to show why this is a grave social setback and not progress.

About the situation

The price of land multiplied in recent decades. While in earlier times increases of a few DM per square metre were noted, today one reckons with jumps in 10 or 100 DM (5 or 50 Euro) steps. "In some large Cities someone who wants to build has to pay more than 500 DM (250 Euro) per square metre of land, in better areas more than twice as much. Even far out of the city centres tiny building-plots are traded for 200.000 DM." (Spiegel 11/1990) The percentage of the price for land in the overall costs for housing reaches a level of 30 - 50% in some areas. Without enormous subsidies - from housing benefits, building subsidies, reductions in interest rates to tax deductions - any house-building would cease. Nevertheless, newly built homes have become unaffordable for the average earner. The consequences of the withdrawal of purchasing power through redistribution of income (higher payment for a house or flat = cutback in other areas) are not even taken into account.

1 "Expropriation shall only be permissible for the public good. It may only be ordered by or pursuant to a law that determines the nature and extent of compensation. Such compensation shall be determined by establishing an equitable balance between the public interest and the interests shall forfeit these basic rights. This forfeiture and its extent shall be declared by the Federal Constitutional Court."
(http://www.bundestag.de/interakt/infomat/fremdsprachiges_material/downloads/ggEn_download.pdf)

2 l.c.

In the industrial sector, increased real-estate-prices have an impact in higher initial capital for procurement. Therefore, industrial areas need to be subsidised by municipalities in order to stay cost-effective. The fact that long-standing companies own property bought at the lowest prices, distorts competition with newly founded enterprises not only through lower expenditures but also through easy opportunities to procure secured capital.

In the agricultural sector, it has become altogether impossible to finance interest for, or redeem the price for land from agricultural earnings. And this is happening at a time, when agriculture is undergoing large-scale structural changes and therefore many changes in land-ownership are pending (especially in connection with organic farming). Since at the same time, producer-prices for agricultural products are being kept low for social reasons, an increasing imbalance between revenues and expenditures is opening, which becomes a threat to livelihoods. Neither is it being taken into account that gift-money is now being used on a huge scale to write off debts or redeem farms. Gift money, which would urgently be needed elsewhere for social and cultural activities instead of it literally disappearing into the "ground".

High property prices make it increasingly difficult for municipalities and local councils to perform their communal tasks. The reimbursement costs in Germany follows the open market value for building plots, making any project substantially more expensive. Between 1958 and 1968 the City of Munich had to pay 612 million-DM (more than 300 million Euro) for land needed for public facilities (streets, schools, parks etc.). The same acreage would have cost only 117 million, given price stability on the level of 1958. For example, compensation at current market level is required when building a street, although as part of the infrastructure, a street usually increases the market value of an adjacent plot. Urban and regional planning policies are thus made nigh on impossible. Similar effects are felt by social and cultural institutions, whose property does not produce any income.

Rising real estate prices also raises interest -rates/mortgages and increasingly affect financial markets. Interest rates of 10% and more create difficulties even for people in the higher income brackets. The high numbers of forced sales speak for themselves. - However, banks are also using property as collateral. While rising real estate prices improve the collateral and thereby provide higher credit, dependence on price-developments is deepened. The mass-collapse of savings banks in the US was triggered mainly by the decline of the real estate market. One can only guess what will happen, if such a development occurs, e.g. in Japan. The impact would be substantially larger than from a collapse of the stock market.

All mentioned groups are being put under increasing pressure and they in turn increase the pressure on prices and wages. The free saleability of land, which is being provided for in our present land rights, turns into a de-facto "un-buyability" for more and more members of our society. The price of land becomes an obstacle for a socially responsible use of land and can even render it impossible. - The fact that increasing real estate prices make all landowners rich - at least on paper - is one reason why there is no wave of protest throughout the country yet. This is true not only for owners of farm land, which is being turned into an enterprise or residential zone, or for big real-estate investors, but also for all homeowners, whom Ludwig Erhard had already identified and supported as guarantors of the bourgeois class market. They believe that for them the increases in property value will more than compensate the general decline in social life. However, they miss the fact that this increase in property value itself is the cause for the malady and that the assumed fortune can only be turned into real value if the social organism is healthy. Keeping the social structure healthy would be reason enough to implement new real estate regulations. There are, however, far deeper reasons.

Land is not a commodity

The concept of market has been developed to regulate the exchange of goods and services: one good or service is exchanged for another, according to their price-relation. The fact, that money comes in between and cuts the activity of exchange in half, does not alter the basic principle of this process. On first sight it may appear as if the customer is not actually reciprocating anything - "merely" giving money. But he can have gained this money only by having sold his goods or services to somebody else. Commodities - that is, exchangeable and thereby sellable goods and services - are gained only through ones own value-creating work. *Land, however, is not an economic good, that is produced by individuals (it may be looked at as a cultural achievement of humanity as whole, as a "cultural common") and is thus not a commodity - consequently change in ownership, is not an act of purchasing.*

For a market to be functioning, supply and demand must be able to react, because only through reactions can the price be kept within limits acceptable to all. But this too, is not the case with land. It cannot be increased (or only in very narrow limits, through cultivation, land developing, regulations for building density etc.), nor can it be transported. Land that is available in a remote region cannot be used to lower real-estate prices in a metropolitan area. On the other hand there is a growing demand for land from a growing population. This growth can also appear within a limited area, i.e. through the attractiveness of centres, so called "density zones" or highly populated areas. For instance, in Germany today 50% of the population live on just 7% of the territory. This is also the case as lifestyles change, e.g. more living space per person is demanded, increasing independence of young people, more old people living alone, the "singles-movement" ("one person household") etc. The only possible reaction of the "demanders" would be not to buy. But what can you do without housing? There is no substitute - no way round it. *Instead of a balancing of the market, there is only the one-way road of rising prices.* (The typical suggestion, that there are also frequent price-crashes doesn't prove the opposite; it only shows that, besides the steady development, there is also a strongly speculative component, which causes disruptions.)

Elements in our land register, the tax-laws, the inheritance-law and other parts of our legal system reflect that land cannot be treated like any commodity. It is not for nothing that it is specifically mentioned in Art. 15 GG (German constitution). For instance, a decision of the Bundesverfassungsgericht (federal constitutional court) from 12.01.1967 (1 BvR 169/63) says: "The fact, that land cannot be increased and is indispensable, makes it prohibitive to leave its use purely to the uncontrollable play of market forces and the whim of the individual. A just societal and legal order makes it mandatory to emphasize the common interest to a much higher degree in case of land than in the case of other goods ... Hereby [in view of the common interest: Author's note] a system of ownership that would give absolute priority to individual interest over the interest of the community is rejected." It is useful to remember at this point that "Federal Republic of Germany is a democratic and social federal state". Gerhard Leibholz, judge at the Bundesverfassungsgericht (federal constitutional court) frequently pointed out, that according to the "Grundgesetz" commitment to the social state is as important as that to the constitutional state.

If land is not a commodity, than it cannot be simply bought and sold. It is in the proper meaning "not for sale", which means it has to be conferred without a purchase price being paid.

The redistribution effect of real-estate prices

Some people find it nit-picking to emphasize that land is not a commodity. This only shows that people do not understand such concepts, because the social effects are not clearly

seen. The concept “commodity” is socially linked to the exchange of goods and services (s. above). But what is being exchanged when land is sold?

In economics, land is being described as a means of production. The value of a means of production is determined solely by the profit that is achieved through it. It is only dependent upon its usage. *Property in land by its very nature therefore is a right to use, or a “user-ownership (or a “user property”)* - Because land cannot be replaced, it may only be used, but not be consumed in the real sense of the word. This already puts significant constraint on the concept of ownership, which in our legal system normally tends to provide unlimited disposal. The use of land is everybody’s concern!

Because land cannot be produced while at the same time the earth is the basis of existence for all human beings, it has to be available to all citizens on earth. Where this is not the case today, it is structures of power, domination or legal systems that have created this distribution. But today, at least within our organisation of the State as community based on law, the principle of equality in personal development is imperative. The continuity of old principles of domination severely impairs this equality.

On the other hand, it doesn’t make sense to provide everybody with a piece of land of equal size. That was rather the way of past, subsistency-based societies. Owning land in those days meant primarily having a means to provide for ones own existence. In the modern social structure, which is based on division of labour, we are not working for ourselves any more - we are working for others. In this way the fruits of property are made available for the common good. (E.g. any single farmer today works for over 60 people, because only 1/3 of the population is economically active and of those only 5% are farmers.) - Equality, which in earlier times was articulated through a direct claim on land, appears today as the right to a basic income, to which everyone is entitled and which should build a social safety net against lack of income, which otherwise may endanger ones existence. *Hence, it’s not property itself as a basis for social activity, but only the regulation of such operations through which property loses its social virtue that can be the object of a change in land rights.* Selling is such a case.

The ownership of land therefore can only be understood as an individual right to use, which is given and confirmed by society. The selling of land then means that the old owner gives up the utilisation and a new user takes over the right to use. The price for purchasing however makes the new user give a part of the increased value gained by his efforts to the previous owner who is a non-user. A part of the earning has been redistributed to the benefit of the previous owner who is now no longer providing any output. In economics a profit which is gained without providing a reciprocal service is called economic rent. In earlier times it would have been called more honestly a tribute. The more the real estate prices rise, the bigger the redistributing effect. If, for instance, a farmer can no longer earn the price of purchase for his land from his produce, this means all the profit is being claimed by the previous owner, despite the fact that the latter does not contribute anymore to the production. The farmer has become a modern serf, although we thought we had got rid of serfdom in the 19th century. - The situation after the purchase appears to be worse than before for both the buyer and society. *Unlike any other purchasing- exchanging-processes, selling land provides payment for a non-contribution.* This justifies calling the commodification of land a cancer in the life of society.

It would still be argued that, firstly the seller has usually already paid something for the land for which he should at least receive interest, and secondly the seller has to give something up for which he should receive compensation.

- It is taken for granted that in the case of a change of land-ownership the real expenditure must be recompensed. If somebody has bought land, they did it with the permission of the

official legal system. This already looks somewhat different in the case of interest rates. When making the comparison, that the purchasing price would have gained a particular rate of interest during that time had it been left in the bank, what is here overlooked is the fact that the value of using the land was available to the landowner, and not to the “saver”. One cannot claim the benefit and the money at the same time.

Interest is thus not subject to compensation. He who has not used his land, remains indebted to society. But no one can seriously demand that the society should, in that case, compensate him.

This already addresses the motive of forgoing ones own benefit. In a free society each person is free to alter their own living conditions. Naturally somebody can give up their right to land use, if they no longer want to use it. But this does not give them the right to a portion of the next owners’ earnings. (An exception is still to be found in agriculture: where the old farmer still lives on the farm and thus still receives some of its benefits. As a result of the insurance-based solutions for care for the elderly this farming practice will also become redundant.)

Likewise it should be clear that the real investments should be recompensed to their time- or residual value. But these sums of money cannot be considered as a purchasing price, but rather as a refinancing, where only the creditor has been exchanged. The fundamental error in the argument of forgoing ones own benefit can be appreciated first when it becomes clear that land-ownership is an adjudication of the society and not an achievement of the owner. In this respect it is society that relinquishes something, namely the achievement of the owner. If anything it is the seller who should need to justify why he didn’t achieve the promised usage. *Whoever wants to retain the freedom of dealing with land as a valuable and yet does not wish that this freedom ends their own freedom, must demand that land changes hands with out any purchasing price.*

This would also be the consequence of Article 2 of the Basic Law for the Federal Republic of Germany, that the restriction of the right to freedom of the one individual begins where the rights of another are infringed upon. The right to purchase land is a permanent infringement of the rights of everybody else.

The impact of leasehold, building law and lendability on mortgages

It seems self-explanatory that when the sale is spurious the loan on the purchase price is also affected. Mortgages only serve to secure the credit for the purchasing price. If the land changed ownership without such a price then this land lien is not necessary. (This is different however in the case of financing a house. But here too the land itself cannot be used as a security, as it no longer has a sales price.) It is precisely the mortgages that have enabled the increasing land prices, as immense purchasing sums can be given out ahead of time for decades and, paradoxically, serve their own security at the same time.

The popularity of mortgages, supported by special legal and tax treatment from the credit-givers, comes from the fact that the credit is disconnected from the fortunes of land-users initiative. Whether the owner becomes unable to pay or his business goes bankrupt, the land itself holds or even increases its value. The difference between land and other means of production becomes visible here. A machine loses its value over time through use; land becomes more valuable. One cannot understand the social function of land by looking neither to the general theory of goods nor those of production means.

In the case of leasehold and emphyteusis it is even clearer that the owner receives an economic rent, in fact a tribute, out of his or property rights, though he does not use the land as a means of production himself. Both ways to leave the usage to somebody else - selling land on the one hand, leasehold and emphyteusis on the other - are enjoying increasing popularity, because of the rising prices. The advantage of the leaseholder or possessor by emphyteusis is that they do not have to raise the otherwise necessary purchasing price. It appears as if the seller awards himself credit.

For the lessor or the provider of heritable building rights the advantage lies in the fact that he can enjoy the interest without losing the property. Through the adjustment of the interest rates he participates in the general betterment and can then still enjoy increases in value when selling. One doesn't get rich over night, as is possible with an instant sale, but one gains lifelong security. The redistribution between the active and the inactive cannot be shown any clearer than that. Both forms of transfer would be obsolete with the new land rights that declare that land cannot be sold.

Main features of a New Land Legislation

What does a modern, socially designed, land legislation look like?

1.: Goal

Land and property are nonmarketable. The transfer of land and property takes place without a buying price. This does not affect the saleability of buildings.

2.: Rights of usage

Land and property are handed over to society for this purpose. This should be designed in such a way that the present user should have the same property rights as an earlier owner. The only right missing is to sell the land, i.e. to claim a purchasing price, on giving up the right of usage. This form of ownership could be called user-ownership, property on trust, or "ownership in social stream".

Democratically legitimated institutions would be formed to oversee societies property rights.

3.: Transfer of ownership

With this land reform the previous owner automatically becomes the new owner. The previous owner can undertake further title transference. A social organisation that administrates the land would only move in when there is no initial user available (unused land), if the previous owner has found no successor, or if the needs of a larger community require limitation or modification of usage.

The right of usage of the land automatically follows property rights on buildings (which - in contrast to the land - can be sold and purchased).

4.: Compensation

The previous rights of ownership would be compensated to the inflation-adjusted sum of the real costs of purchase, whereby minimum payments could be worked out in the case of old houses. Compensation would be primarily to reduce the existing liens. The banks are re-

sponsible for making these repayments available for the institutions, which are obliged to pay the compensation.

5.: User Fee

For relinquishing the land a periodic compensation payment (user fee) would be fixed, the cost of which would be based on the specific social conditions and needs in question. The user fee should be bound to particular social tasks, and not be a general financial source for state institutions.

6.: Financing the Compensation

The compensation would be financed by the user fee until total repayment. After which it can be settled independently from any considerations of the costs.

7.: Impact

As soon as the reform described above became law by decision of democratic majority land would be without a purchasing price. Through the impact of the compensatory payment for the owners the financial burden for the usage of land would stay on the present level, until the whole compensation sum is repaid by the user fee. The effect would be the same as freezing land prices. In reality the compensation means a new distribution. However after one generation land would be freed of the burden of the purchasing price. The duration of the payback period with respect to the effectivity has hardly any relevance.

In the following the individual components of these new regulations will be briefly highlighted and explained.

User fee instead of Land price

The transference of land from the whole of society to the single person for sole usage excludes all other members of society. There are two reasons to charge this transference with a user fee. Firstly it is correct to say that the real benefits of a productive utilisation e.g. agriculture and industry flow to the general public but they do not accrue without costing. Rather the accrued earnings remain in private hand and are available as income for those involved. Therefore it is necessary that there is a fee paid to ensure that the non-owners are at least partially compensated. Secondly the owner-usage of the land, in particular for consumer oriented needs such as accomodation, should be as economical as possible.

The User fee would thus act as a consumer-tax and this would come into play particularly in the case of unused land.

As a user fee would be levied here as well. The only person who would be eligible for such a plot of land would be someone who would use it himself at a later date, as there would be no possibility of regaining those costs through a later sales price.

The user fee would enable a type of compensation for usage, as the earnings would be used for social purposes and no longer, as previously, go to the private seller. The effect would be comparable to leasing land or the community being the ground lease provider. Nor is the user fee a payment in lieu of costs (apart from the transitional period of the reimbursement) It can be freely determined according to the needs of the society , e.g.:

- favoured position - higher fee; poor position - lower fee;
- intensive acreage-usage - higher fee; economical usage - lower fee;
- single family home - higher fee: rented apartment-building - lower fee;
- high ecological burden - higher fee; effort to use ecologically - lower fee.
- Reduction of the quality of utilization e.g. through road building, aircraft noise etc., could be instantly taken into consideration through reduction of fees. Public concerns/requirements could thus be more easily achieved. On the other hand due to the improved quality e.g. better infrastructure, one could ask for higher contributions to be paid.
- Charitable institutions would only need to give reduced or no user fee at all;
- *Areas needed for public use would be free.*
- Sustainable agriculture could also work without paying duties as their work of maintaining cultivated land is needed.

This just gives an indication of the type of flexibility that a user fee allows, in order to use land in the in accordance with peoples understanding of the public needs. *In special cases it would even be possible to have the user fee given to the highest bidder in a public invitation to tender.* In this case there could quite naturally be a higher financial burden for land use, but at least the proceeds would flow into the society as a whole and not disappear into private pockets.

It would be useful to have the user fee earmarked. On the one hand community land usage could be financed in this way. The idea of the compensation for use is actually more suited to be applied towards social groups who cannot support themselves out of their own activities, e.g. Social security support for people on low income, care of the elderly, the young etc. Simply placing it in the public spending budget as a source of income would not be right. - A further benefit of a user fee ruling would be the discontinuation of all land taxes, that demand a huge administrative expense, and replace it with one single bill. (The questions connected to real estate are not affected. A tax deficit bill can only concern the taxes directly connected to the land. Also fees for public services e.g. property ownership transfers could remain, though in a changed form.)

Property transfers

Up until now the previous owner has sold the land on the market. If there is no longer a purchasing price for the transfer of a plot of land and thus no longer a market, who decides who the next user is going to be? Wouldn't every transference become a bureaucratic administrative act for the body that was formed to oversee society's property rights. (We could call this body also a public holding society).

As agents for property rights two possibilities present themselves. On the one hand the communities and towns themselves could be the agents. The fact that they are already agents for the urban- and construction planning speaks for that solution. Both aspects of the land question are in one hand and complement each other perfectly. It is precisely this fact that is a counter indication for such a regulation. Such integration in the responsibility of the general political bodies could create a sleaze of interests. Experience in some large towns has already proven this.

It would be better to have the administration of land in the hands of a public institution, whose civil representatives could be authorised through an extra election. In this way a party-oriented town administration could be balanced by a self-administrated citizens' institution. As these would both come from the same geographical region, any contradictions that may

arise would merely reflect the real situation of a particular region and thus lead to more and not less democracy. It could also be conceivable that such institutions could find ways of working together in larger regional co-operations.

It has already been mentioned that these societal property rights would remain inactive as long as there were no need to act. As the sales of buildings remains possible and the rights to use the parcel belonging to the building automatically go with such an exchange, *there is no need, nor possibility, in these cases, for the public body to intervene*. Almost all transactions fall into this category, and the only duty here is one of information. It makes sense to allow the public holding society a purchase option, particularly in the case of town and regional planning. The problem of allotment only occurs when the land is not yet in use. And in that case it is not different than is commonly practised today. Wherever communities sell or lease land these days, it has to be decided who becomes the owner or proprietor. The question of allotment would actually become a lot easier, as it would only be a question of a user-property and not property investment value. It is precisely when the community buys land today that a problem arises: that of awarding the new owner a future wealth at public expense. In a social-political sense this is more than dubious and has already caused many a scandal.

However whoever considers that only market conditions bring about the right allocation by rewarding the highest bidder, could advocate a regulation, in which allocation is decided through public invitation or auction. In this case the level of the user fee would be fixed by competition between the bidders. As in this case no bidder can reckon with regaining any of his expenditure through a later sale, it would be solely the earning-capacity value (value of use), that would determine the user fee and thus create a reasonable limit. This would even bring about transparent and openly accessible conditions that are nowhere to be found in today's land-market. In general one can say that the present land-market is completely in-transparent for most people and thoroughly penetrated by pressure groups. - Additionally all institutional consumers like insurance companies, pension funds etc. would drop out, as these are only interested in buying land for its value increase. Requests for usage in order to create living- or industrial space would however not be affected.

An important objection considers the grey- or black-market. If the now no longer existing land price simply be added to the price of the buildings, the whole scheme would be for nothing. Here we have to consider that this would occur only if land prices still existed in comparable locations. *If land has no price anywhere, then no economic rent could be accrued*. - Admittedly you could look to a city location and indicate that a location which is very attractive for the shoppers would push the price of property higher than any building costs and even the zero cost of land would not offset this. As the value of the location is affected by the municipality, it makes sense to have a much higher user fee in such locations than elsewhere. The level of the user fee could indeed be linked to the added value of a sale or rent of the building in excess of the production costs. A high user fee reduces the price leeway on the sale of buildings. As on the sale of a building the buyer must look at the earnings: how much cost can I afford? And here too we have the price reducing effect of a lack of speculative prospects for the land. - In all these cases we see there would be an important difference to today's situation in that the expenditure for the land comes to the community as user fee, and not to a private owner or seller. - The duty to give price information to the holding society, the public disclosure of the user fee and the society's option to buy are further measures, which can help to prevent black marketing. Also, making a legal regulation that in the case of discovering hidden payments or demands, only these would be invalid, the contract would remain and the salesman would be the only one penalised, would instantly close the last gaps. Announcing such agreements publically after the ownership transference, would make any hidden bargain a huge almost incalculable risk for the owner giving up the property, as the transference would not be retracted, the illicit earnings would not be handed out and there would be a penalty to pay.

Of course it is possible to imagine situations that would be able to undermine such regulations, even if those responsible used all their imagination to work against such attempts. A residue of abuse has to be borne by society if it wants to enable freedom of action for its citizens. But compared to today's situation, in which the land prices create permanent damage for the community, these risks are negligible. Still they are used to argue the case that the whole transformation effort is not worth it, as there is no "perfect" solution. *The point is not to have a "perfect" land-right but a socially appropriate one.*

The Reimbursement Regulation

In the end all land reform models have failed because of this question. Our legal system makes it necessary, to adequately compensate the previous owner. The amounts in question are enormous sums of money. In the study "for a social land right" for example, the amount of compensation paid solely for the built-on land by 2,4 Mio. hectares and an average payment of 25 Euro per square metre brings the sum total to 600 milliards of Euro. In the meantime the built up areas are no doubt far larger, and the price of 25 Euro is nowhere near realistic." These rough calculations make it clear that such amounts - even with a good financial development - cannot be raised by public institutions." Does this mean the end of the possibility for a really radical reform? For a dispossession with no compensation at all is neither legally nor politically enforceable, nor would it be desirable.

It has to be made clear what exactly requires compensating. This could simply be the sum that the present owner has to lay out in order to acquire the land. In such a ruling all the land users would be treated as if they were user-owners from the beginning. There would however be no need to pay compensation for the often-quoted interest yield of invested capital. As has already been mentioned the interest has already been enjoyed through the using of the land. In contrast to the saver who receives interest specifically because of lack of usage. - The current market value, that is the value of the present market conditions, would not be subject to compensation on sale of the land. This is a hypothetical value whose accrual cannot in anyway be attributed to the land's occupant, but arises out of the conditions prevailing in the social milieu. As the fruit of the owner's achievement is not destroyed there is also no need for the community to pay compensation. On the contrary it would make it clear that demanding the market value would permanently harm the community. The fact that this sum cannot be collected for all but only for individual cases also speaks against the market value. (Compared to the stock market, the market value guarantee would be on par with the daily exchange rate. But this is totally unrealistic, as it is only a fraction of the shares, which makes up the daily exchange rate. It is precisely when a mass movement begins that stock market crashes happen, when everyone wants to claim this rate.) The last aspect that speaks against market value pricing is that at the time of the purchase the expectation of its value is purely speculative. But speculative values have no guarantee of being realised. Whoever speculates on rising land prices has to reckon not only with economic changes but also those of a political and legal nature. Any sense of justice would be turned upside down, if the community had to guarantee the speculative goals, which in effect became a burden to that very community. - The only legal watertight objection would be that of discrimination. This is today's problem of indemnification. Because it does not affect everyone, the individual case is taken into consideration, and therefore the market value is drawn into play. *A general conversion from capital-based ownership to utilisation-ownership would disable the current market price principle as an individual measure as the compensatory regulation would apply to all owners.*

The acquisition values today are lying way below the extremely high market values. This is connected to the way in which old houses or inherited property is dealt with. In these cases

too one could say that the present value lies in the usage. One could still settle on a minimum compensatory value, though that should not exceed 20% of the market value.

As a first step every present owner would have to prove their acquisition costs. These would naturally include investments that have increased the value of the property but not those that simply maintain the value. This claim for compensation would be examined and approved through the public holding company. - Where would the money come from though? For the sake of the further investigation we will assume that the money is available. The compensation that goes to the existing owner would need to be earmarked, to primarily pay off existing mortgages on the whole real estate. Splitting, in the sense that the land would remain liability free capital and the mortgage would be apportioned only to the house, would not be allowed. For the owner the loss would be the same as the banks'. There would be no damage neither for the owner nor the bank. Then if the price for the land does not apply and the mortgage is deleted to the same amount, the loan coverage will be improved. The money, which is flowing back to the banks can be given to the public holding societies and covers their solvency. Here the circuit is completed. This is necessary also for the monetary stability, as a sudden flow of money to the sum of hundred millions of Euros would create an enormous monetary instability. The free monetary market thus only receives the sum of the value of the yearly repayments.

The holding company's credit must of course be charged interest. The legal regulations for the user-ownership and the user fee give the banks a full guarantee on the credit. -

The user fee, that every user-owner has to pay, will finance the interest payments. For this reform, a special interest rate, much lower than the present maximum interest, could be agreed upon with the help of the State and the central bank. At least one percent could be offset for the repayment. (With this type of initiative the full support of, at least, the state authorities and the central bank would have to be assured, as it is an essential contribution towards achieving a healthy society.) In this case, on average, the burden would not be changed, i.e. the interest rates and repayment of compensation would not place a heavier burden on the existing owner than the acquisition had done.

Even if a special interest rate does not come into effect and the one-percent repayment is charged extra, this is equivalent to a single land price increase of between 10% (at 10% mortgagee-rate) and 16% (at 16% mortgagee-rate) throughout the whole credit period. In effect though it means a freeze in land prices.

For processing the transaction the repayment time is of itself not important, other than the interest has to be paid for a longer period of time. A useful time span could be that of a generation. Then the new land right would become a real generation-creation, a generation-contract. As the usage fee is a long-term fee, it functions as a constant annuity. If you set up a contract between the holding company and the bank at an interest rate of 5%, then a 1.5% repayment rate, for the total compensation in less than 30 years, would suffice. If one assumed a rate of interest rate of 8% then a 0.9% repayment rate would give the same result. - Throughout this time the usage fee would not really be free for new social achievements, as it remains bound up with the consequences of the previously existing land rights. Only after completing the repayment do all the earnings from the usage fee flow into communal tasks.

One question that remains unsolved is the loss of revenue that the public institutions had previously gained from the way that land rights are dealt with (profit-, inheritance-, wealth- and income taxes, plus various other dues). These figures are not available due to the complexity of the coverage undertaken. However two considerations can be briefly mentioned here :

Without a doubt the aforementioned income sources will be lost. However instead the compensatory payments for public use also fall away. And it is after all 55% of all building areas that are used for traffic, railways, parks, cemeteries, airports etc.

A large proportion of the income goes to administration and taxation of the owned land. These functions would be considerably simplified. The advantages with respect to the town and country planning are however difficult to pin down to exact figures.

There are a variety of ways that could facilitate the compensation necessary for the public institutions. The usage fee could be set higher than needed to cover the payment for the indemnity regulation. An advantageous agreement with the banks concerning the interest rates would be the best way to give the necessary leeway. It would be also possible to extend the repayment time. If the payback period, at the rate of 5%, would be extended from 30 to 37 years then 0.5% would be additionally available. A third possibility can be seen in the inflation rates. Even if the yearly usage fee was aligned only 50% with the rate of inflation, an increasingly large portion of this sum could be made available as chargeback.

The minimum amount of the usage fee should be based on the interest- and repayment rate during the compensatory phase. In this respect it corresponds to the *average* acquisition value of premises.

An additional amount for repayment, loss of revenue or extra tasks could emerge from the following considerations. The purchasing price, for which compensation is compulsory, is the basis of the calculation. Whoever bought at the latest market price would receive the respective sum as compensation, but he would also have to pay a usage-fee in x % of this price. The other case would be if someone bought a plot decades ago at a low price. If the usage fee followed the level of compensation, the advantage would be continued. - As the usage fee was justified in a wholly different way and was linked to the purchasing prices only because of the need for an indemnity regulation, it can therefore be argued that it could not follow the

purchasing price downward. If the usage fee is determined by present day income-levels and land use-practices then a part of the fee from owners who have been compensated below this capitalised level will stay available.

Understanding of this monetary correlation shows, that the assessment on financing as being impossible is not correct. It is not necessary to provide the enormous sum of i.e. 0,6 Billion Euro or more all at once. Rather, it is basically a *circular booking, which is only the first step to a turning around of the distribution processes*. Of course, at the beginning the interest paid to the banks is the major share. However, with every year the share of the usage-fee used for repayment increases and the flow turns around in favour of society. The calculation is only complete if the revenues from the usage fee complement the expenses for compensation.

The figures mentioned here are only exemplary, although not entirely arbitrary. The final figures would have to be determined once the discussion reached a more advanced stage. Important is only the realisation that this step can be done, once the market value is replaced by the purchasing-price. (A regulation based on market value would lead to a catastrophic process of speculative money creation.) The purchasing prices are already documented in the balance sheets of economies.

Impact on stakeholders

Most citizens have a stake in the issue of land, therefore the potential impact on their own situation is usually in the centre of interest. Out of the many different interests, a few characteristic examples will be discussed.

Cities and Municipalities: Municipalities will get the greatest advantage. Zoning maps and land use planning will become much easier to implement, because there will be no entitlement for compensation. - Non-built up land will be made available, because in the absence of a future selling price, the usage fee will only be payed by those who have an immediate interest in using the land. Otherwise the land will be handed over to the public holding-corporation. - Land distribution by the council will be rid of suspicion, because land is no longer a valuable asset. - The surplus of the usage fee, will be used to finance social expenditures, which have been paid for by the municipalities so far. This will be a relief for public budgets. (To give an idea of the scale, we will look once again at the already mentioned figures. With an assumed compensation of 0,6 billion Euro as the initial benchmark for the usage fee, we would get 39 billion Euro annually at 6,5 %.) The scope of losses through changes in the former land an tax laws still needs to be measured; compensation for this has been discussed in the previous paragraph. - The elimination of a price for land would also help to avoid unwanted speculation and social asymmetries (only banks and insurance companies can afford inner city plots at the moment). - If the holding-corporations were subject to public law, this would increase citizens' self-organisation and sovereignty.

At this point it should be emphasized again, that transfer of former ownership-rights to the holding-corporations (or municipalities) initially leads to dormant rights. That means, the role of proprietor will be assumed only when the transference of the land-using rights from one user-owner to the next is interrupted. In general, the holding society stays in the background, so that the user-owner need not be bothered by bureaucratic interferences. The leasing contracts are to be designed accordingly.

Home owners: The former owner will automatically become the user-owner. There is no change in the living situation. - Ownership of the building remains, also in the proprietary sense, and maybe sold without any restrictions. The user-ownership of the land comes automatically with the purchase of the house. - The building can be inherited at any time. But there will be no inheritable value in the land itself, a fact that will render many battles over inheritance obsolete. Also the burden of reimbursement for parts of inherited land falls away. - Former expenditures for the purchase of a plot will be reimbursed to the new owner, down to the last penny. - In case of necessary change of residence, the selling of a house will be much easier because financing of the land will no longer be necessary.

Tenant: for the tenant the frozen land prices lead to a genuine relief, as the land price falls away and is replaced by a user fee. This would make itself felt particularly in the towns where land prices are extremely high. As the user fee is initially issued as reimbursement of the previous conditions, it primarily prevents further burdening of the land rather than reductions in costs. But even partial freezing of rents is already a substantial improvement. - the user fee is public and can, as in the case of attendant expenses, be separately declared, so that it remains transparent as a cost factor. - Rent increases would therefore already be curbed, as building without land purchasing costs would become easier. Without land purchasing costs, the building of private homes or cooperative housing projects would be far easier. Through the changes in the user fee such developments could receive preferential treatment/be benefitted/promoted/abetted. The relief for the capital market through the discontinuation of land financing would set free capital for real estate and could make a considerable contribution to financing the building of homes. House building could receive new impulses.

Business and Industry: here too we see that the changes in land legislation would turn the previous owner into user-owners. The preservation of the investment remains untouched as does the saleability. For business undertakings the situation in general would improve, as they would not have to raise capital for land. This financial relief would be felt in particular by young firms, whereas older businesses would no longer be able to look at land as „hidden assets“. - As the user fee includes as social taxation component it would be possible, for instance, to favour specific developments such as low-emission production etc. Land reserves could also be maintained, even if it cost a certain user fee. In which case undertakings would only hold such land in reserve, that they were highly likely to need. Hoarding would make no sense, as there would be no accumulation of financial assets. - As the land no longer presents a capital investment, the present preferential treatment by banks and insurances, which also use land acquisition as an investment asset, and thus are contributors to rising prices, would fall away. The limitations for businesses in the towns would thus be substantially reduced.

Construction- and real estate companies: Generally, construction-activities will benefit from the absence of rising land prices. Rising or sufficient construction-contracts are the basis for this economic sector. - Plots of land are not available anymore as tradeable objects for real estate companies. Trading of buildings however will continue. - Also the bad habit of buying land to secure the possibility of building activities for oneself would disappear; this, however is a desirable effect. Construction- and real estate companies can furthermore realise big building projects. Whether they get unused land for those projects would however have to be decided by the holding societies who would evaluate the projects' social effects. - There will be no losses for this economic sector through reimbursements. Anyway, speculative value must not be included on the balance sheets - in accordance with the lowest value principle.

Credit business, insurance companies and pension funds: Credit for land will neither be possible or necessary in future. Through reimbursement of the former land value, enormous amounts of capital will be set free in the long run, which will be available for investment, i.e. housing construction. - The permanent danger of rising interest rates and thereby the sudden excessive demands especially on private homeowners will disappear as far as the quite substantial part of land costs is concerned. - Here also, all real investment will be reimbursed. If the lowest value principle remains upheld, there will be no holes in the balance sheets! Only hidden reserves that may have been hoped for, will disappear. - Reimbursements will be used mainly to repay mortgages and thereby will increase the bank's equity and improve its rating. In any case credits to the public holding societies will be secured by law. - All calculations based on rising land prices, as well as assumed hidden reserves based on ownership of land will be invalid. - A real deterioration in the bank's position emerges only, when mortgages have been used for securing credit for purposes other than buying land. For these now de-facto unsecured credits, banks may create a temporary interbank security-fund.

Public and non-profit institutions: A user fee is not necessary, since these institutions are already working for the public good.

Agriculture: Especially in agriculture, which requires a strong relationship between the farmer and the land, it should be emphasized again, that the succession plan can and should be undertaken by the farmer himself. There will merely be no more selling, mortgaging and long-term leasing of the land. - Because there is no price to be paid for the land itself, succession will be much easier. Continued cultivation will be secured through a much lower purchasing price for the farm. The purchasing price will have to be based on the farms' revenues and thereby have a reasonable dimension. (In Switzerland, two to three times the value of the revenues is considered an acceptable price. This normally includes the buildings, but not the equipment. However, nowadays eight to ten times is demanded.) - The reduced value and the binding of ownership to usage will also simplify succession in the case of inheritance. . . - A usage fee for the farm should not be required, because farmers incomes in our society are

generally at a disadvantage compared to continually rising pay scales. A user fee, however, may provide for compensation between different farming sectors (i.e. high-mountain farms and low land farms), or to reduce the debt ratio in agriculture through a debt-release action. - The elimination of capital gains makes it easier to discuss changes in the zoning plans. Readjusting farms would also be easier, as presently hardly anybody is handing over land because an increase in value is expected. Gains from changes in the zoning plans will not be possible, however.

The concept of the commons was widely spread in earlier days, especially in the agricultural sector - a form of ownership that allows usage by everybody, but no proprietary rights (in Switzerland this is still widespread). Also the fact that a lot of farmland is leased shows, that what matters, is the right to use, not proprietary ownership. On the contrary, the undefined possibility to sell is a hindrance to readjusting the use of the land.

Summary

The idea of transferring land and soil without a price being paid may give people the uncomfortable feeling of being restricted in their freedom of "ownership, as being the unrestricted right to do with ones property as one pleases". Here it needs to be emphasised again, that this supposed freedom of one person, leads to the limitation of another. Exercising a right, however, cannot find its meaning in disabling that right for others.

All in all, the advantages of such a change in land rights may be summarised as follows:

1. By making land non-marketable, which means transforming former property into utilisation-based ownership, the price of land is immediately frozen. The lowest margin being given by the legally mandatory compensation to the former buyer of the land.
2. Within one generation, all processes necessary to achieve compensation can be accomplished. Everyone partakes in the restructuring of the situation. There is no re-organisation on the backs of only a few. How long the process of restructuring will take is of little importance for the actual impact of this solution in the present.
3. Investment-capital will be directed towards the actual purpose, i.e. residential construction, instead of being used up in the purchase of land.
4. All land users will be significantly unburdened to a considerable degree from the portion of costs that is connected with the land and which is nowadays permanently increasing. The distorting difference between old and new ownership now becomes irrelevant.
5. Without a purchase price for land the problem of compensation is eliminated for the future. Regional planning can then be implemented much more easily.
6. The costs for purchasing land-using rights create a continuous redistribution from social usage to private usage. The new regulation of a utilisation based ownership means, that the fee for land use will go towards social purposes and thereby become an important source of funding for certain social tasks. The fee replaces all former taxes on land while leaving behind the purely fiscal aspects.
7. Money capital can no longer be absorbed in land. Thereby removing an undesirable congestion of financial resources in this area. There will be no more credit given for real estate.³

3 Editors note: About new forms of credit see the chapter about the mastering of money in the social organism.

In these reflections, only basic questions and their possible solutions have been discussed. For many aspects there are alternatives and modifications. To elaborate on these now would mean side stepping the essential direction towards solutions. At a later time the impact on existing laws and regulations has to be examined and adequate proposals for changes have to be worked out. (E.g civil code, tax-laws, bank-laws etc.)

Fundamental Social Law - Altruism as a Creative Social Power

„The health of a community of cooperatively working human beings is all the greater, the less individuals claim the fruit of their work for themselves, that is, the more they make over these proceeds to their co-workers and the more their needs are met not by their own work but from that of others.”

*R.Steiner: Fundamental Social Law
Anthroposophy and the the social question*

Pseudo Markets for Labour and Enterprises

As the division of labour took place, two interconnected questions came up, which haven't been sufficiently answered to date: What is the role of human labour? And: Which legal form should enterprises, as places of co-operation, have? Since the implementation of the universal human rights, old social- and class rights still accepted as a matter of course in times before the individual came of age, can no longer be drawn upon. . The new rule of law is based on legal equality and must not lead to, or favour, new systems of dominance. However, in the case of labour it was precisely what did happen.

In Europe and America, bondage and slavery systems existed until far into the 19th century; Interestingly, particularly in the agricultural field. It was a huge step forward to dismantle the old structures once and for all, through the success of committed freedom fighters like von Stein or Lincoln. Applied to modern working life this would mean that employment contracts would have to be based on, and regulated by, agreements between persons with equal rights/who stand on an equal footing. Whoever is theoretically unspoiled, may think it logical that entrepreneurs and workers, those who manage and those who accomplish the work, should be on the same legal basis as co-workers, and that the respective wages would be a part of what has been earned together.

Instead, another development took place. Private ownership of land, which emerged only towards the end of the middle ages, became the basis of corporate organisation of our times. There was a failure to develop new social forms of ownership for the new production facilities in economies based on the division of labour. Instead of all who worked together becoming owners of the “legal person” of an enterprise, it belongs only to those who gave the liable founding capital. Thus, they also own all earnings of the enterprise. The owner in turn decides and agrees upon the amount, which - now according to rules of the newly invented labour market - he gives to his employees as a wage. *Co-workers and associates were turned into workers and wage earners.*

Through the fact that, in terms of the law of property, different forms of enterprises are regarded from the perspective of capital, it has become possible to buy and sell enterprises, and therefore “legal persons”, like commodities. The replacement of free co-operations by purchasability, has led today to a huge wave of mergers and acquisitions. Thereby all employment contracts are taken over automatically, so that an enterprise today can be sold outright to new owners over night. *The free purchasability of enterprises leads therefore also to a purchasability of humans.* This is but only one modern kind of bondage, which we just thought to have abolished. There's a logic behind it: Again, a legal entity (enterprise) and a

legal relationship (co-operators) were turned into commodities, that can be bought or sold on their own markets, the market for ownership rights on enterprises (e.g. the stock market) and the labour market.

These rules that have been by now turned into law, have brought immeasurable damage into the world. Deep trenches have been ripped open between entrepreneurs and employees, which can hardly be bridged. Common collective wage agreements with a duration of 1 to 1.5 years and month-long negotiation concluding rituals between “employers” and “unions” turn working life into a permanent labour dispute. How can the will to work for the social good ever develop, if the people involved have to continuously fight about their labour conditions and wages?

The pseudo market for enterprises (real capital) will be mentioned again in the chapter on money (see below), but will not be discussed in depth here. Instead of systematically examining the market problem, here I would like to introduce paths towards a new understanding of work. Starting point will be the so-called “Fundamental Social Law” as mentioned in the beginning:

„The health of a community of cooperatively working human beings is all the greater, the less individuals claim the fruit of their work for themselves, that is, the more they make over these proceeds to their co-workers and the more their needs are met not by their own work but from that of others.” (*R. Steiner in: Anthroposophy and the social question*)

„A morally valuable, but too idealistic and therefore unrealistic utopia“ - this is more often than not the judgement on the “Fundamental Social Law” by “practitioners”. In contrast, the following excursion wants to point to the practical aspects of this “law” for every day life; provided the reader is willing to look beyond the superficial aspects and behaviour of today’s social life and, with an open mind, take into consideration the spiritual essence of man’s being, his potential and need to develop, as part of a more comprehensive reality. The meaning of practicality concerning life, is then to explore its powers to germinate and to work towards life’s conditions to grow and to unfold.

Individual Maturity and social Paternalism

Having the universal human rights embodied in most constitutions of our planet can justly be called one of the greatest achievements of modern humanity. But the battle to have them implemented as a matter of course is far from being won and demands further effort. These universal human rights embody the concept that the modern human becomes mature enough, to give direction and purpose to their own life. That has not been the case in earlier times. The further we go back, the more the individual is still embraced within groups, connected by blood-bonds. Direction and purpose, from religion to economic life, of the individual was regulated through the community. . The community in turn was inspired by supreme powers, which revealed themselves in humans who were prepared by specific training or belonged to chosen bloodlines. The all- embracing effect of old cultural communities upon the individual, led to an impressive consistency of all spheres of life, still able to touch us today. Earlier humans did not feel this to be a restraint on their personality, just as a child doesn’t feel its regulated surroundings to be restraining, but needs this regulation from outside for its development, until it is “mature” enough to give itself these rules on its’ own.

With today’s consciousness of what it is to be an adult, we are not able correctly judge the workings of earlier social relationships, nor can we find a way to shape modern social life if we try to carry the old communities’ idea of “oneness” into the future.

The maturing of all mankind means a complete reversion of the relationship between individualism and community. With the proclamation of maturity, the striving for free autonomy is brought to a certain conclusion. Now the task is to make this freedom the source of individual- as well as social life.

At first only in isolated cases, but since World War I with epidemic speed, all societal institutions were put under democratic legitimisation of politically mature citizens. Thus all those have been disempowered, who had so far felt themselves to be called to lead people through supreme assignment, by "God's grace". The new decision-making authority is now the democratic majority. This is leading to an artificial standardisation in every sphere of life in which it is applied: The equality of being politically mature becomes an equality of opinions and intentions. The state under the rule of law, built by politically mature citizens for politically mature citizens, automatically becomes the oppressor of minorities in the name of the majority. The most extreme, but most natural minority, however, is the individual itself. This contradiction of a modern society based on democracy is only resolvable, if the polity - which tends to standardise - withdraws from all spheres of life in which aware and responsible people are willing and able to take initiative and to create viable institutions themselves.

The connecting factor between people in a modern society is no longer conformity of values and of rules of behaviour. It rather appears through the diversity and developmental scope of each individual's actions. If, after the maturing of all humans, it is still tried to implement such a conformity with the help of democratic institutions, then the old ruler's thrones from earlier times are restored and replaced by rulers in civil clothes, by "the grace of the people". Trying to use democratic institutions to implement such a conformity in the age of the autonomy of the individual would lead to a return to the old royal-ruler-based system from the time before political autonomy, and "by the grace of the people" would restore rulers, now dressed as civilians, who would use the rule of majority as their strongest and all-legitimising argument. And the more they, , make their own opinions and intentions heard, using the legitimisation of the majority, the more they turn the universal human rights into their own specific right. The objection, that many people are still not able use their freedom in a responsible way, and therefore social rules have to be in place to support them, must in no way be placed as an argument to inhibit individual initiatives.

So on the one side; democratic polity has to leave free space for the autonomous acting out of individual impulses and creativity, if it intends to turn the maturity of all citizens into a social reality. Thus, freedom is stepping up besides equality. This is also true, initially, for the other side of polity, for economic life: Abilities and needs are both expressions of individual character. The individual potential for enormously increased productivity that has been set free through the division of labour is proven by our apparent wealth.

But for modern economic life, neither freedom for abilities and needs, nor having regulations based on judicial equality is sufficient to provide a sound basis. Firstly, it is the division of labour itself, which demands co-operation according to the set work distribution. As another consequence of the division of labour, the results of my work - are no longer destined to satisfy my own needs; first they have exchanged with products and services from others through the process of selling and buying. Thus the additional question of a *just and fair price* appears, and along with it the question of a socially fair distribution of the fruits of co-operation. The democratic state also faces a contradiction here. If the state leaves the individual longing for freedom to be lived out as pure unrestricted egotism, then the tendency arises in the individual to claim the utmost benefits of their own labour to satisfy their own needs. As he or she has to demand these fruits of their work from others, the freedom of the individual turns into a demanding egoism, and destroys the basis of co-operation, from a social point of view. However, if the state - for reasons of equality - wants to protect the welfare of all from damage in the first place, democratic and individual rights have to be significantly curtailed; a process of disenfranchisement would take place in the economic realm.

The question whether economic life can be allowed to be the solely field of the Ego or whether it has to be collectively regulated by society, has been a heated debate in economic science since its beginning.

Both questions, the one on co-operation and the one on just distribution of the work accomplishments are interconnected in the same way, as abilities and needs are two sides of one being. The indicated conflict can only be solved if in economic life individual behaviour is oriented to the welfare of all humanity, and thus also to the implementation of social justice. This behaviour can be called brotherhood. Brotherhood is the correlate of judicial equality in the economic sphere. It is, like freedom, also a consequence of mature behaviour, and its practical implementation is necessary, if human dignity is to hold its own in social reality. The Fundamental Social Law describes brotherly conduct and its consequences for those who are interconnected. Opposed to this stands the dogma of egoism.

Egoism - a Natural Constant?

Economic life is the result of conscious and intentional human labour, and thus it has been a part of human culture from its beginnings. While materials and forces of nature are used for the production of goods and services, the drive and motivation of human labour and of economic-social behaviour emanate from human inner life. This way, economic science is concerned on the one hand with natural science and on the other hand with human science. For this science to become as precise as possible, economists searched from early on for calculable coherency in human behavioural structures; for "laws of nature" of social life.

What gives man orientation in economic life? During a time, in which the individuality awakens to autonomy, but simultaneously continues to cut itself off from old spiritual impulses, the answer to the question above is: "the individual itself". Interpreted from a scientific-materialist perspective on human nature, this reflects the human drive for self-preservation and assertiveness, which allows him to succeed in the struggle for survival: This drive for survival is the strongest of all drives, the personal advantage is the most pertinent and strongest motive.

The image of a „Homo oeconomicus“, the person who obsessively seeks and takes his or her own advantage, is said to be an unalterable centre within human character, a constant trait of nature in all human souls, and therefore as statistically calculable as natural phenomena. "This trait (*of being a law of nature, author's comment*) of human character is not changed by the fact, that the statistical laws pertaining to economics ultimately are based on inherited traits and deeds. This validity remains unshaken as long as the human attitude towards economic life does not change. This attitude is the drive for self-preservation (egoism); i.e. the existential economic struggle and striving for economic advantage using all legal means. It is the unrelenting desire to achieve the highest possible price because something is highly desired by someone else, instead of allowing the other to have it free of charge, despite the fact that (due to the division of labour, comment of the author) it holds no value for you.⁴

According to this way of thinking to work for others and to share with them would already weaken the drive for self-preservation: "An individual who works with one companion is less industrious than an individual who enjoys the fruit of his labour alone. If there are 10, 100, or 1000 companions, the impulse to work must be divided by 10, 100, or 1000; and, if the whole human race is to share in the proceeds of labour, everyone will say to himself: 'It does not matter how I work, for my work is but a drop in the ocean. ' Work is then no longer impulse-

4 Ernst Winkler, *Theorie der natürlichen Wirtschaftsordnung* (Theory of natural economic order), Heidelberg 1952, S. 11

driven; impulse must be replaced by some form of compulsion. For this reason the Neuchâtel savant, Ch. Secrétan, is right in saying: 'Egoism should be, in the main, the stimulus of work. Everything, therefore, that can give this impulse more force and freedom of action must be encouraged; everything that weakens and limits this impulse must be condemned. This fundamental principle must be applied with inflexible resolution despite the opposition of short-sighted philanthropy and the condemnation of the Churches.'⁵

Humankind has been, is, and probably will forever be an "egoist" - the whole edifice of today's economic science ultimately rests on this, not economic but, ideological axiom on human nature. As long as such a judgement is based on observation of human behaviour, it is undeniable that egoism is the all-pervading motive of economic behaviour. However, the development of maturity is inseparably linked with the development of human reason: It is not possible to envisage free and responsible action without the capacity of conscious thinking.. And only from here, could the driving motive of egoism be replaced by other motives. This assumes that within human thinking there is a power to change its own nature and bring about social transformation.

Egoism and the Division of Labour

The driving forces behind economic egoism are our needs. Many of them are so strongly connected with our physical being that their non-fulfilment would put our very life into question. We are bound to it, as long as we need, and therefore have to maintain, a physical body. Another question is, however, whether this egoism of the physical being also forces us to act egoistically among the human community, in our social environment.

As long as superordinated values and rules of the community directed the individual to a particular place in life, and gave his or her soul a spiritual location, egoism was manageable for the social structure. It even tended to work in favour of world development, as it led man towards autonomy. Since this autonomy has been achieved, though, and of the community is depending on the behaviour of the individual, egoism cannot play the role of framing social power anymore, according to its nature. One of the greatest social developments of recent centuries began at this point: the division of labour, in which the individuals do not work for themselves anymore, but for the others, collectively known as the "market". What one has produced serves only indirectly to fulfil ones own needs, by providing the necessary financial resources for purchases by selling the results of ones work. The further this process develops, the clearer its basic principle becomes visible: Everything that I produce is meant for other people; everything that I need, others have produced for me. On the level of goods and services, this principle is, to a large extent, implemented today. The division of labour forces, from its very nature the gesture of the committing ones work to other humans. This gesture is called altruistic, self-less, in contrast to the grabbing gesture of egoism. *The division of labour turns out to be a social device, a "school for selflessness"*. The individual can do no other than work for the collective : "It is neither a God, nor a moral law, nor an instinct that calls for altruism in modern economic life — altruism in work, altruism in the production of goods. It is the modern division of labour — a purely economic category — that requires it."⁶

Through the division of labour alone, the egoist does not become an altruist. In economic life, egoism (despite again and again trying hard to find ways to reach its goal) is strongly restrained by the fact that we are objectively in a situation to work for other people when we

5 Silvio Gesell, Die natürliche Wirtschaftsordnung durch Freiland und Freigeld, Lauf 1949, S. 20 (The natural economic order, Preface to the third edition, 1918, <http://www.appropriate-economics.org/ebooks/neo/preface.htm>)

6 Rudolf Steiner, World Economy. The Formation of a Science of World Economy (1922), London 1972, S. 43.

produce goods or perform services, as described above; so today it concentrates on the moment of bartering, which has to take place. In *buying and selling*, the egoist can still try their luck to get the best possible price out of others' needs, and thus shift the exchange ratio of human work to their own advantage. Egoism today is acted out not in the product, but in price and wage. It is there that we have to track it next.

The „Economic Principle“ - Development of Productivity and Counter-productivity

„To reach maximum output with minimum input“ - this principle is often the credo of the “homo oeconomicus”, with which he wants to, and does, achieve the optimum of his striving for advantage. The implementation of this principle, however, is dependent on the sphere of life in which it is applied.

1. If it is applied in the production of goods and services, its usefulness can be immediately observed. Applied in a consequent manner, it leads to the following effects:
2. It results in the most economic use of material, capital and human labour.
3. By improving the relationship between input and result, it improves productivity and creates opportunities for further production.
4. It increases the level of supply of community.
5. The increase in productivity can also be used to cheapen products, for saving capital or to reduce working hours.

These results are achieved through the *effectivity of human intelligence*, which is able to change and improve existing working conditions through rationality and imagination. Thus, the economic principle demonstrates the productive power of our mind, if it turns towards economic life. It is the “*productive principle of the spirit*” (*intelligence, reflection etc.*)

The stream of supply that springs from this source benefit all those co-operating together in the best way, if the individual applies the economic principle to themselves in such a way, that they relate the efforts to themselves, but the returns to the community. This happens in Fundamental Social Law, which thus proves itself to be the metamorphosis of the economic principle into the social sphere.

A completely different picture appears, however, if the producer's return is also to be maximised. In this case, the economic principle means that the individual strives to receive maximum service from others while giving minimum effort himself. Technical production improvements that have been increasing the benefit and thus improved the social conditions, now show a tendency to decrease the activity: The less I give away or the higher the difference is between my own investment and returns, the better I am doing. The ideal of such behaviour would be doing nothing, while being totally cared for by others, an illusionary land of milk and honey. Advantage for myself results from altering the exchange conditions of goods and services (prices) in my own favour. To push this through, it is necessary to apply power (“market power”), which egoism forces us to do. If this is successful, the egoistic increase of the individual's welfare is connected with the decrease of the welfare of all.

In the social environment of the division of labour, the economic principle works counter-productively, if it is applied in this way. The result is widely known, and always comes to mind if it is concerning behaviour within a community. Business management today, for example,

totally geared towards the economic principle: producing as cheap as possible, selling as expensive as possible. If an individual employee of a enterprise applies this principle for themselves, if he or she tries to earn their wage with as little input as possible, there will be a lot of protest. They would be declared as damaging the entire enterprise, and threatened with dismissal as a form of exclusion of the social community. Similar patterns can be seen in world economy, where there are complaints about a permanent decline of exchange conditions for developing countries as well. The economic principle accordingly, when applied in social contexts, means that *the whole becomes impoverished through the enrichment of its individual members*. Thus, the individual disconnects from this community, which is only a means to an end; without any significance. After describing the economic principle as a productive principle of the creating spirit, we can now summarise its effects on a social community as follows, if it is applied on the price conditions:

1. The individual effort is reduced as much as possible.
2. The improvement of the living conditions of an individual has nothing to do with an improved performance, but is merely a result of redistribution at the cost of others. It is not productivity that has increased, but egoism.
3. As many goods and services as possible are required from others.
4. The price relations become unjust, i.e. they are not in balance. The social meaning of the individual appears bloated, as it is based on the power of egoism.
5. Through withdrawal and refusal to serve, the productive powers of the individual are withdrawn from the social organism; the community at large suffers damage.
6. As the human ego shapes itself through expanding its creative powers, a withering of these powers implies a weakening of its own individuality. (“... that this idea of service, in its wider sense, cannot be separated from the idea of the human” - writes Prof. Sontheimer in an essay called “Zwischen Leistungsglück und Leistungsdruck”; “In-between happiness and pressure to perform”); The human thus falls back into an animalistic behaviour of self preservation.
7. Social behaviour according to the economic principle leads to social disintegration; the individuals separate themselves from the social community, even if they live right in its midst.

As beneficial the economic principle is in the working process, as destructive an influence it becomes for the social process, if the welfare of the individual and not the welfare of the whole is the aim of one's own labour.

Limitations of an egotistical consciousness and Expansion of social Awareness

By acting out of egoism, the social health of all is subordinated to the individual welfare. The catchment area of egoism thus becomes the permanent limit of the individuals' awareness of the whole, which it is forbidden to go beyond. Egoism leads to a social structure, which itself only allows egoism.

How can it happen, in a community of people who live under the dictatorship of egoism, that according to the statutes of the rights of man everyone has the right to an economic existence? The market economy solution, which dominates our society, is based on an amazingly simple thought: That there is one strong natural enemy of the egoism of the individual -

the egoism of the others. The hardship of one person is then the opportunity for another, who also tries to exploit the situation to the full. But if social contexts are shaped in such a way that these opportunities to gain an advantage are known by as many other egotistical-minded as possible, without them being aware of each other, then the strange situation appears, that there are more opportunists than the actual opportunity can provide. This means that expectations are too high. The result is that those who want to win the advantage start competing amongst themselves. The end of this merciless struggle is a make-believe victory; it is won by the one who gives up the biggest part of the originally expected advantage, as the person in need can choose freely among the competitors, and of course will choose the cheapest. The beneficiary of the competition among the sellers is the buyer, and vice-versa.

In summary, it can be said: the more the egoist exerts him- or herself and achieves, the greater is the welfare for the whole, provided that it creates and protects the conditions of competition, through which the whole hauls in what the individual desired. All these conditions of competitiveness together form the system of *free market economy*: transparency of the markets (i.e. recognition of winning chances), free access to markets (i.e. everyone is allowed to try and gain the prospective advantage), atomisation of interests (i.e. there should be as many different sellers and buyers as possible, so that there is enough competition), isolation of the awareness of the participants (i.e. no one should know about the intentions of the other - only the promise of profit is shared by all), no privileges through power, agreements etc.

While listing such conditions, it becomes obvious that the concept of market economy makes the narrowing of consciousness through egoism a social duty. The *social balancing* takes place outside of the individual consciousness *through the market mechanism* of offer and demand, as a inversion of advantage? It happens through an "invisible hand", provided that everyone fulfils their *duty to act egoistically*. It is within such lines of thought, if market economists repeatedly warn against interference in this complex price mechanism on the basis of social images and wishes, as the mechanism itself is argued to provide the social balance.⁷

The market economy's solution indeed appears to be unbeatably ingenious: No one has to change their egoistic behaviour nor even criticise themselves about it; no one has to threaten the other by waving a moral finger; and above all, one does not have to think about the complexity of the social question. The only condition is the dutiful submission to behave according to market economy! Then, the community will get what it needs through competition. Doesn't today's general prosperity provide the best credentials for the correctness of this theory?

The height of prosperity makes it hard to argue against. For the proof of market economy is only quantitative. For the responsible human being, however, the result is secondary to the manner in which it has been achieved. Whilst underway, how far the result is expressing a conscious intention becomes visible; because without a committed consciousness of the initiators, one cannot speak about responsibility and thus maturity. Did humanity free itself from the guidance of superhuman powers, only to unconsciously submit itself to a pure mechanism? The social model of market economy is, from this perspective, an anachronism! As it's social quality lies in *securing the economic existence of all as a basis for their maturity, through the incapacitation of the individual*.

If the health of a community of co-operating people is meant to replace egoism as a motive of economic action, *the consciousness of the individual also has to be able to expand towards this whole*. In a context of labour division, in which each person plays only a small part

7 Friedrich August von Hayek, Conversation with Ludwig Erhard, Basler Zeitung.

in fulfilling the whole, the social interconnections have to be transparent and experienced, in contrast to the isolation of market economy. *Only when the different interests come together, from the producer to the consumer, and find their associations does it become possible through the shared experiences to make an overall assessment of the social processes.*

Communities working with associative economy become holistic organs of perception, creating a basis on which socially viable judgements can be formed, which can in turn spark the conscious will of the individual. If representatives of different social spheres work together in this way, the question of a regulatory mechanism becomes obsolete, as the regulation lies in the activity itself, which is not based on the unconscious, but on the consciousness of the collectivity. Silvio Gesell resorts to the unconscious market mechanism in 1918 rejecting the idea of associative economy, as he did not recognise the situation and the development opportunities of human consciousness. A little later Rudolf Steiner declares that the responsible human to be the legitimated subject of the social and economic process. "A food which permanently stills hunger does not exist; neither does a universal social panacea. Nevertheless, men can enter into communities in which they would be able to continuously direct their activities in a social direction.⁸ Associations are such kind of communities of people who are all active in economic processes. By being part of them, the individual can broaden his consciousness to include the whole social process.

This broadening of consciousness to incorporate the economic processes of a co-operating community as a whole is still not enough. The fulfilment of needs cannot be an end in itself. "If any man works for another, he must find in this other man the reason for his work; and if any man works for the community, he must perceive and feel the meaning and value of this community, and what it is as a living, organic whole." The community "must be informed by an actual spirit in which each single person has his part. It must be such that each single one says: The communal body is as it should be, and I will that it be so. The whole communal body must have a spiritual mission, and each individual member of it must have the will to contribute towards the fulfilling of this mission."⁹

In the age of freedom a spiritual mission cannot, come from the subconscious currents of our nature, as for example in nationalism, but only from what has been recognized spiritually. Insight and knowledge cannot be achieved through interests or special organisational features, they connects all humanity. By addressing particularities and recognising them as such, it directs them to their place among human endeavours, and thus returns to them their right to exist. "*Spiritual missions*" - in contrast to "bodily" missions - are always compatible with human progress. Insight must not remain on the surface of economic life "in itself", but has to include the knowledge of spiritual realities, and the development and destiny of individuals and communities. Compassion for humanity's strivings provides the spiritual basis for the experience of *mankind as a brotherhood*, whose legal basis is given in the universal human rights.

The economic-social broadening of consciousness needs follow a corresponding growth of the spiritual consciousness, a deeper insight into the grounds of humanity's development. A solid basis will only be achieved by whoever learns to experience and understand their *individuality* in its *spiritual reality*. On the path of "*soul observation*", one can find an activity of the soul within thinking, which is entirely one's own activity, but doesn't have a personal *content*. This activity discloses the spiritual coherency of phenomena not recognised by the sensual impressions in a selfless-pure way and thereby enables individual participation in the spirit of the world.

8 R. Steiner, Towards Social Renewal, Preface to the fourth German edition 1920, GA 23, London 1977, S. 16.

9 R. Steiner: Anthroposophy and the social Question (1905/06), in GA 34, Translation from edition New York 1977.

Thinking consciousness, being our own activity, is always at the same time self-consciousness, so an action which is directed towards an object of recognition, in an insightful manner, can be experienced at the same time as springing from our innermost centre. It becomes apparent that we can only really talk about human freedom when something has been done out of such insight. *Love of freedom requires love for insight. In the same degree in which we make recognition become the guiding power of our actions thinking governs our soul.* Prior to this it functions only as an intellectual slave fulfilling the souls' cravings. Thus, a new source for human motives is opened up, in whose context egoism loses its driving force, and the underlying craving no longer forces us, but becomes part of the perceptions which we consider to understand a situation. (A frequent objection is the view that only a drive like egoism makes people work; if it is absent, people must be forced to work, thus replacing bad with worse. The fact that a human can spark their will through their own insight and thus push the gate to freedom open, and have the possibility to overcome egoism through a higher power, is ignored by presenting the alternatives - outer or inner compulsion. *Our whole social structure practically depends on the trust in the capacity for insight of our fellow humans - a capacity that allegedly is not existent in economic life.*)

The broadening of consciousness of the whole social organism through the instrument of associations, is the foundation of economic activity, which is motivated by the welfare of a community of human beings. The broadening of consciousness towards a spiritual mission of a community integrates this community into the whole of humanity. This consciousness of brotherhood provides the ground for equality. The broadening of consciousness to understand how the individual participates in the spiritual world processes awakens us to the living reality of freedom of the individual. . From here, the close connection between the Fundamental Social Law and practical life can be better understood.

Fundamental Social Law - the Transformation of Egoism

Through our ability to create economic values, and our needs, which consume and thereby dissolve those values, we are doubly connected to all our co-workers. The division of labour directs these connections in such a way, that ultimately all my abilities are serving the others, and my needs are fulfilled through the service that others perform. The Fundamental Social Law is initially supported by this directive feature of the division of labour.

It has already been mentioned that in an economy based on the division of labour, even the most extreme egoists are forced to seek their advantage by making a detour via productions that serve the needs of others as exactly as possible. The division of labour also leads to the maximum price reduction of all goods and services that are exchanged. By entering the man-made condition of the division of labour, the power of the egotistical-personal motivation to produce ends, and is transformed into the altruist effect calling for the welfare of the whole. Freed from its own demand for fulfilment of needs, the character of our abilities shows itself as basically self-less.

However, things are different concerning our needs, which already egotistically desire out of their nature. Wherever they meet the flow of production and performance based on abilities, egoism finds the material for its own enrichment. Production and needs meet at three points: At the *sale*, where my outputs meet the needs of others; at the *purchase*, where my needs meet the outputs of others. Sale and purchase are all about assigning the exchange rate of outputs, the price. But this does not only concern the individual. The rightness of prices, their "fairness", can only be handled associatively. (The price is therefore neither a result of a market mechanism, as in free market economy, nor a political postulate as in planned economies, but it becomes a social judgement that serves as a target value. A further dis-

cussion of the price issue is not possible here. Without a new solution of the price issue, the wage issue is ultimately not resolvable.)

The third meeting point lies in between the two price barriers within the sphere of influence of every individual. Here, the *price issue* turns into the *wage issue*: How much should or may I claim for the results of my own production? The egoist demands as much as possible. Mature persons, who know about their share of responsibility towards all of their co-workers, have a difficult decision to make. Shall he or she become without needs, practice asceticism? And where does this path end, if not in self-destruction? Or should they leave the allocation to their co-workers? And what can they go by, if not by his or her wishes? "What each individual really needs, can only be known and felt by himself; what he should contribute he can determine by his insight into the circumstances of life as a whole."¹⁰ To simultaneously claim the freedom and the selflessness that is talked about here, seems to lead morally to a dead-end.

The problem is only resolved, if the meeting of abilities and needs is put on another basis. Up to now, the relationship between both has usually been looked at in a way that the reason for my work and the connected effort to obtain proceeds from my activities lies in the necessity to fulfil my needs. This outlook is still entirely shaped by the egoist view. If, however, I am able, to spark my economic motivation through the needs of others, as has been mentioned in the previous paragraphs, then *the relationship between ability and need is reversed*: I require means for the fulfilment of my needs, in order that I can produce the services that are meant, and wished for, by others. *The wage becomes the production credit, consumers goods attain the character of means of production*, and giving up the claim for the proceeds of my activities, becomes the refund for my "wage credit". It is like filing a credit application: It is not decisive, how much someone claims, but what the hoped for result means to the community. The "*credit wage*" is the gate, through which the human ability for production, construction and creativity enters the social community, and is asked to enter, as its effectivity is in the interest of this community. The need, and with it the essentially underlying egoism, have not disappeared by this, but have been made utilisable for the welfare of the whole. The "need" receives a new meaning; it becomes the carrier of our unfolding productivity, and thus participates in the non-egotistical essence of the source of our abilities. Altruism has become a social creative power.

Through this, not only the welfare of all cooperatively working human beings has been improved. Co-operation gained a new human and social quality, by turning egoism and thus economic life into a power to advance progress of humanity. Welfare has grown into healing.

The Reality of Brotherliness

It has already been shown, which destructive effects of the economic principle -achieving a maximum output through minimum input - has for the community, if it is dislocated from its usual place in the area of production into the social sphere. There, it arises as a blatant expression of egoism. It's coercive character becomes visible by the fact that pure market economy forces everybody to obey the law of competition, i.e. to do his or her duty as a benefit optimising egotist. It is therefore incommensurate with a free humanity. Whereas Fundamental Social Law merely has a describing character, it does not say how one should behave, but it points towards the consequences of our behaviour. In this way it is a *law of social destiny*:. How the individual acts' is entirely within the realm of his own freedom - the

¹⁰ R. Steiner, Towards Social Renewal, Preface to the fourth German edition 1920, GA 23, London 1977, S. 16 (Translation modified by the editor).

consequences of his actions are not. Here, a new responsibility of the individual towards the life of the community arises. 'The more individuals make over the fruits of their work to their co-workers, the greater is the healing of the community of co-operatively working human beings' - whoever acts like this, transforms the economic principle from the viewpoint of individual welfare towards the health of the whole. To experience this entirety in the mirror of one's own soul, to draw from there the incentives of one's own economic behaviour, and to bring it into the community, is altruism in practice. Fundamental Social Law does not demand that altruism be a duty - this would be a contradiction in itself - but it shows selflessness as the most effective supporter of the health of the whole. Altruism, which has been called the school of selflessness, replaces egoism, as the inside of the division of labour, and surpasses it in its releasing of productive powers. Selflessness, meaning to seek the motive of my action in the needs of others, leads to the formation of brotherhood in social life, which then steps up besides liberty and equality. The instruments, however, which help to transform egoism into altruism, are the economic associations.

We can summarise the effects of brotherly behaviour for social life, broadly referred to in Fundamental Social Law by the word "health" or "healing", as follows:

1. The individuals renounce their claim on the proceeds of their work. - Wage becomes a credit application. The surplus is available for the co-workers. It is achieved as a part of the joint proceeds.
2. Through the credit character of the "wage", the potential capability of the individual is brought to social effectiveness.
3. The proceeds lead to the repayment of the credit. The surplus is available for the co-workers. „Co-worker“ here is used in a broader sense than just the staff of an enterprise.
4. Just and fair prices can develop. They only become fair, if everyone unfolds their productive abilities fully for the others, without keeping back something for their own advantage.
5. Thus the well being and health of the entirety of co-operating humans increases.
6. In being active for others and by freeing themselves from the burden of *having* to have first of all their needs satisfied, the individual is able to act from the inner source of its freedom, thus develops its spirit and character.
7. A new brotherliness arises among co-operating people, which, in the context of a world economy based on a division of labour, wishes to include the whole of humanity.

Since our self has become mature, it no longer lives from the strength of the community, rather the community is created through the effectivity of the Individualities. Brotherliness, which has so far been the most difficult thing to bring into social life, has its roots in the freedom lived out by every individual, and in the equality of all humans which is based on the awareness of this freedom. In this triple nature the whole human being is taken hold of in its dignifying self-responsibility.

The Motto of the Social Ethic (Rudolf Steiner):

The healthy social life is only when
 in the mirror of the human soul
 the whole community forms itself
 and in the community lives
 the strength of the individual soul.

Unemployment and the Distribution of Productivity-gains. Practical Steps towards a Solution

Unemployment has been trivialised for a long time. As long as it made only a small percentage, this could be justified. Today, however, it would be criminal negligence to hold on to this position. While until a few years ago economists assumed a “base-unemployment rate” of maximum 3 percent as unavoidable, caused by continuous innovation-related economic shifts and therefore of hardly any long term consequences for the individual, the EU in the late nineties began to accommodate for an unemployment-rate of at least 7 percent. Cyclical points of view are replaced by much more differentiated and also alarming aspects, such as structural or regional unemployment, long term unemployment, or unemployment of youth, women or migrants. The change in attitude towards unemployment is only an adjustment of theoretical approaches to a fast changing reality.

On top of that, the problem is played down by statistics. Because in reality, all those who don't look for work, or have stopped doing so, those who went in to early retirement, those cases which have been handed over to social welfare, those who have given up, would have to be added to the unemployment-rate. These are in part supported through other social systems and therefore don't weigh in on the unemployment insurance - but they still add to the overall social budget.

Assessments of economic development show, that unemployment-rates will not be reduced sufficiently by an economic upswing only. Indeed, large proportions of planned investments are in reality investments for rationalisation, which will lead to more job-losses. The international scene is showing new markets, but also new competitors, who are producing under much “cheaper” conditions. While our own opportunities for rationalisation are far from being fully exploited, i.e. in the use of the information-networks, which are slowly growing together, in disconnecting machine-running hours from individual work hours of employees, through increasing automation and robots. Also global relocation of production-sites, which is made increasingly easy and low risk through international agreements, as well as increasing integration of foreign work-force into the social system, cause a high risk for employment.

Sitting out the problem until the next economic upswing is not an option any more. New approaches are needed, if social disintegration is to be avoided.

The Issue

Unemployment is by now affecting all citizens. Those who are already unemployed and the others at least indirectly, in so far as they have to be afraid of possible unemployment. Nevertheless, we still have difficulties in understanding unemployment. Cutting the amount and period of unemployment benefits as well as threatening to take hard measures against abuse, are only an expression of the still widespread belief, that the unemployed are a social minority, people who are somehow “strange”. “If they wanted to...!” Simultaneously, the employed are mostly reluctant to “pay” for the expenditures, which are necessary to cope with the problem socially.

If we don't want to get stuck in such sentiments, we need to look at certain attitudes more clearly.

1. The economy of a country (a region) has to sustain all its citizens, not just a part of them. There is no other source of revenue (besides small-scale local subsistence-economies. This is an indispensable element of our basic democratic constitution. Exclusion of citizens would be a violation of the constitution, even if this case were not explicitly written down. (This conforms to the spirit of democracy: a constitutional article about work - i.e. "everybody has the right to work", Art. 24 of the constitution of Nordrhein-Westfalen - is only an attempt to make this more conscious, not an element that could be brought in from outside.)

2. The modern economy is based on division of labour. It demands therefore a high level of specialisation from the individual. This mutual dependence in the operational overall structure can only be imposed on human beings if the loss of independence, which it causes, is compensated by an all-inclusive solidarity. Nobody can be expected to put in an extra effort and make him- or herself obsolete, when their existence is put at risk by doing so. That everyone who is part of the workforce is co-responsible for unemployment is not just a social issue; it is a constitutive element of modern economy.

3. It is possible to expel people from the economic process through rationalisation, but they cannot be expelled from life. At this point the systemic thinking about the "labour market" does not work, because obsolete labour-supply does not simply disappear. Unless the democratic basic rights, which are, after all, the basis for this economic life, would be suspended, according to the motto "Who does not work, shall not eat". An economy, which turned against the human beings in such a way, would have to be incapacitated as totally irresponsible in the face of all democratic principles.

4. Finally it should not be forgotten, that all employees are contributing to the funding of the unemployment pay of others, as part of the work force, through paying obligatory insurance contributions or taxes. Therefore everybody can expect to be carried by others in case of unemployment.

First Step: Making full use of existing possibilities

With a certain justification it was mentioned at the beginning of the steep rise in unemployment, that during times of full-employment too little attention had been given to education and further training. The somewhat forced attempts to implement effective programmes for education and occupational retraining off the top of one's head, are showing this too clearly. Although in the course of this particular study we will follow a different direction, it is nevertheless justified to develop the area of basic, further and advanced training. Low skilled, female and part-time workers have been disadvantaged, as have been migrant workers, especially those with little language-skills. The overall budget for further training therefore shows a clear gap: the higher the professional qualification and position, the more further training, also intra-company - Further education is an ongoing process. Once people are unemployed, it is usually too late to begin encouraging the interest in education, particularly amongst those who have been ignored up until then. Here also the generally acknowledged fact has to be recognised; that further education itself needs to be learned and practised. Many programmes for advanced training produce a lack of motivation among the target-group. Furthermore, in many re-training Programmes it remains unsure, how the demand for workers will develop.

There is also nothing to be said against employment programmes, which simultaneously provide participants with a meaningful task and further training, while preventing their marginalisation. One should just not hide the fact, that in this case no new permanent jobs are created. The more unemployment turns into long-term unemployment and into a structural problem, the less one can hope for the success of these measures.

Also, the idea that unemployed people could be turned into self-employed entrepreneurs holds true only in singular cases.

Illicit work creates a certain problem, of course. However, this points beyond the issue of unemployment. Only to a small proportion is illicit work systematically run by the unemployed; the larger proportion of illicit workers are people who have a job and do additional work in their spare time. Not just a few companies are involved in illicit work (i.e. through illegal employment of migrants), as are those citizens, who order goods and services from those companies. Therefore the issue of illicit work calls for a very broad societal debate, or should be separated from the problem of the unemployed.

Finally, an overhaul of insurance benefits is part of the “first step” in coping with unemployment. Most people usually work in a profession for which they are qualified and receive a corresponding salary. In many countries in case of unemployment this salary became the point of reference for unemployment pay. If less-paid jobs were then offered, there was not just a psychological barrier (“this is below my qualification”). If the person in question became unemployed yet again, the lower income from the job he had held last turned into the new point of reference. The impairment became final. It would have been therefore important, to stipulate a longer period of time, during which the higher qualification remains the basis for unemployment pay, independently from intermediate occupations. This is, by the way, also in the interest of the national economy, because professional qualifications are the dearly acquired assets of a society, which should not be jeopardised lightly. In reality the opposite way was chosen in many countries: the period was yet shortened, in Germany e.g. by the so-called Hartz-Reforms.

Second Step: Who should be paying for unemployment?

The measures described in the first step already pose a problem, which will foil any further proposals from the beginning: the financing of unemployment. Only after a preliminary solution for this problem is reached, other steps can be discussed. Therefore we focus on this question first.

1. The Cause for the present development is not a cyclical downturn. Production and supply have never been in such good shape. There are no shortages. Rather, it is the continuing development of productivity, which is constantly destroying jobs.

2. Improvement of productivity means, that fewer people create at least constant output? In times of economic growth, the labour-capacity, which is freed up, will be absorbed into new value-creating production. Unemployment appears, if at all, as an intermediate step from one job to another and can therefore be neglected. In this process all involved act autonomously, only the results are being registered statistically.

3. If unemployment-figures suddenly go up, then this shows that the process of “absorbing” does not work automatically anymore. Growth stagnates. While the unemployed are affected immediately and directly, this is not the case for the companies in the same way. They are, after all, only responsible for their employees, not for the unemployed. They can financially ease their way out of difficulties precisely by laying off workers through improving productivity.

4. Increase in productivity of work means that the same productive capacity is created by fewer people. There is more production per person. Who has the right to claim this “more”?

5. While in times of full employment the answer would be “all those who are participating in the production”, this is not admissible in times of unemployment. Because the economy based on division of labour provides the only basis for existence in our society. There is no other source for the means for all human beings. To guarantee the ability for economic survival for everybody is part of the democratic foundations of our society. There may be unemployed people, but there can be no people without income.

6. The fact, that we have to (and hopefully also want to) provide the unemployed with an income, does not pose a problem for the national economy in the first place. Because, measured in real economic output, there is not less production than before. This means, the real income of the unemployed has already been co-created by the remaining and now more productive co-workers.

7. Nevertheless, their share does not flow directly to the unemployed as income. Because they have disappeared from the cost-calculation of the companies. Operationally, the business sector is pretending that these people ceased to exist. The reduction of costs are being used either as additional income for the remaining factors of production, or for price-reductions, mostly in export-markets.

8. That is why the income of the unemployed has to be generated indirectly. In Countries like Germany in the first phase it is provided by the unemployment insurance, in later stages through the other social security systems, which means through insurance fees and through tax-money. These payments need to be collected from the direct source and create a burden for income-receivers and companies. People typically complain about these “extractions” through “social costs”.

9. In reality, however, this is only the redistribution of that part of productivity, which, in expectation of an economic growth, has already been divided among participants in the economy. The growing numbers of unemployed show, that this assumption was premature and therefore has to be reversed. The indirect raising of funds for unemployment-income is not an additional burden, but a justified redistribution. It does not create a real disadvantage in the first place. It is merely that the hoped for advantages do not materialise.

10. In the general understanding it is now said, that the working people have to sustain the non-working. This however, presently only takes into account the income/wages of the employees.

11. This sentence is only half-correct. From the point of the national economy, it has to be said more precisely, that the overall economy has to provide for these expenses. Redistribution in this case means, that we have to look for the whereabouts of the productivity-gains, which triggered the unemployment. It has already been mentioned that we need to look in two directions: at prices and at income.

12. In national economics we have three factors of production, which draw their income from economic value creation: labour, land and capital. If income tends to be too high, then all three types of income have to contribute to the unemployment-income. In reality however, land and capital don't contribute. On the contrary, they receive preferential treatment in business-management. For example, employees are laid-off to maintain or increase return on capital. This state of affairs is unsustainable.

13. The objection that enough tax is already being paid is not valid, since this holds true for wage earners as well. They therefore could also question their share in financing the unemployment-income. In fact we need additional payments in this situation. For this all three income sources have to contribute.

14. The wage earners carry their part through their *unemployment insurance* contribution, in which the employer takes a share. But in return, the unemployed receives only a part of his former income and that only for a limited period of time.

15. The self-employed also would be liable to pay. The argument, that one does not receive any benefits from the unemployment-insurance and therefore do not have to pay, is not in line with macro economic rationality. Wages are not costs; they are shares in the value creation. - By the way, the self-employed are the ones who need the employed and are eager to keep them dependent.

16. How about those who receive interest from capital? In answering this question the sources of capital shall not be differentiated: A wage earner with his savings account in a bank is affected by this as well as the owner of a large fortune. The former only does not know about the connections. All interest as income from invested capital comes from the same value creation as the wages. With the big difference that income from capital is usually an additional income with absence of expenditure of work.

17. Calculation to which extent we would have to charge on capital can be done in various and differentiated ways. The exact determination would have to be done step by step. Necessary statistical structures are still missing and would have to be developed first. But it seems that roughly 1 percent of capital as a contribution to unemployment-income could be appropriate.

18. For *rental income*, at least for the share of the price of land, a similar stipulation would have to be implemented.

19. With the same justification, the *retained earnings of companies* also have to be charged for transfer-payments.

So far only the income has been looked at. But these calculations have to be complemented from another side. Because a large proportion of the progress in productivity flows into price-reductions: In this case, redistribution took place prematurely in favour of consumers. Hence, the prices are too low. They would have to be raised by a share in the income of unemployed, just as beforehand the other incomes have been reduced.

20. In our economy, prices are built autonomously and so they cannot be influenced directly. In addition, a measure of this type should provide competition-neutrality and especially avoid negative impacts for exports.¹

21. The best instrument for this is a compensatory charge in aid of the labour market, which is limited to the domestic market. The easiest way to design this would be an earmarked surcharge on the Value Added Tax/VAT (consumption-related social rate). (Restricting the use of revenues should prevent them from being turned into general fiscal revenue; the surcharge would have to be determined annually.)

22. Such a VAT-like consumer-tax is competition-neutral inside the domestic market; in the case of export it will be reimbursed, hence it would be no burden; in the case of import the imported product would carry the expenses just as if it had been produced domestically. The remark, that this is burdening wages again is not correct, if the prices go down after taking inflation into account. More important is the possibility to use a tax exemption in order to take the social aspect into account.

1 Vgl. http://www.sozialimpulse.de/threefolding.net/textshtml/Social_Security.htm

23. Because of the aforementioned characteristics of value added tax, one consideration may be to finance the whole unemployment insurance, and possibly other social security systems as well. Internationally, this would be beneficial for all, because it means that in each market internal conditions are decisive - the internal level of social security as a parameter for amount of the VAT-like consumer-tax. For poorer countries this may be the only way to build up a social security system.²

24. It follows from the facts mentioned that financing unemployment is not a financial problem. The sum of measures described here already provides enough. This amount could be increased annually by the whole quota or by a share of the increase in productivity, if the employment situation does not recover. The contributions to be paid are not going to ruin our living conditions. The burden for each individual is only a fraction of the pressure on unemployed people and their families.

25. It needs to be emphasised again, that this is not a sacrifice, performed by the contributors out of a social-moral attitude. Rather they give back, what they have taken too early in various ways by trusting in continuous growth. They have to live with the fact, that there is no growth that would sustain a full employment as we used to know it. One may find this regrettable. But it can not be changed that easily. However, nobody is really damaged by such a system of financing unemployment.

The previous remarks are not meant to cement the status quo. Unemployment is just a negative word/concept. We need to ask positively: how could the freeing up of human labour, which is expressed by which finds its expression in unemployment, be used and distributed in more meaningful way? Nevertheless: as long as people live with the impression that the unemployed are fleecing society's wealth there will be no basis for an understanding of new opportunities.

Third step: What to do with the free capacities?

It needs to be reaffirmed once more, that the cause of unemployment lies in a boost of productivity, not in an economic depression. In the previous case unemployment is good fortune, not a tragedy: It shows that it is possible to create the same national product with less work. It is unbelievable that this good fortune is described and experienced as the worst calamity. The real disaster is that, an adequate redistribution of productivity-gains is discussed in such a cumbersome way, affected by special interests, or worse still is prevented altogether.

Presuming that financing unemployment is secured, the question arises of how the distribution of working time can be achieved in a long-term, meaningful way. The following remarks give only a few hints for this possibility:

Certainly, reduction in work hours will be an essential element of possible measures. For example, the 37,5 hour working week is not stipulated anywhere as ultimate working time regulation. 50 years ago, 48 hours of work per week had been common. That means, if the development of productivity continues, then work hours will have to be, or can be, reduced. This can certainly not be done across the board. The difficulty and the type of labour will have to be looked at. This complex issue can only be solved in co-operation with all stake-

² cp. Where to go with the Social Systems? Safeguarding the Future by Restructuring the Financing of Social Security from non-wage Labour Costs to a Consumption-related Social Rate (http://www.sozialimpulse.de/threefolding.net/textshtml/Social_Security.htm)

holders. The best way would be a legislative initiative, making the regulation of this issue mandatory. It may then be left to the stakeholders to agree on the necessary form. This, however, should not be made dependant upon a regulation being wanted or not by one of the social partners. (The opposite case, which is now being brought up so often, namely the extension of work hours, is preposterous. Not only does this reduce the prices, it also enlarges/increases the supply in times of increasing marketing difficulties. The single item may be cheaper, but it is not easier to sell, because the increase in supply puts even more pressure on the price. In addition, all these proposals assume that competitors, e.g. other countries, which are being thus pushed out of the market, would not react. It is obvious that this would call for counter-action, such as the airline-battles. There would be also less job-offers, and so on...)

Nevertheless it makes sense to discuss if a general reduction in work hours would be the most important step right now. Because once it is turned into recreational time, this time can hardly be reactivated for social purposes.

2. In all organisations, co-operation and communication are being highlighted. Employees who only follow orders are less and less in demand. We need co-entrepreneurs rather than employees. But the time needed for the necessary processes is hardly available in companies. A weekly staff meeting already sums up to astronomic costs, which are only grudgingly granted, given the present competition. New collective wage agreements should reduce productive work hours, but not the overall work hours. The surplus could be used for the limited purpose of internal processes, including further training. An essential and urgently needed improvement of the quality of working conditions could thus be achieved. This time for social co-operation could be called "operational social time".

3. Preferable to a general reduction in work hours would also be educational and further training programmes. Presently the unemployed are overloaded with such offers, whereas there is hardly anything offered to the employed in many areas. It would be quite desirable/useful/helpful to have the opportunity to use paid hours as periods of education in ones professional life. Not only as "sabbatical" for the highest cadres and academics, but for all the employed. Many people don't realise what it means to enter a profession at the age of sixteen and to leave it at 65, interrupted in most cases only by holidays. To educate oneself is the outright basic prerequisite for our independence and maturity that is guaranteed by the democratic fundamental rights. A democratic society cannot be content with just having cheap labour. Sabbaticals could also be used for childcare etc.

4. A permanent bone of contention is the common belief, that the unemployed are being paid for waiting around and leisure, while there is work in abundance for which no workers or no money could be found. Typical keywords are environmental protection, social services etc. Since the right to unemployment-pay is being granted due to the former employment, there is no requirement to do other work while waiting, least of all unpaid work. The alternative here would only be some kind of forced labour. Listening to the discussions about the labour market reforms one can see that public opinion unfortunately moved in that direction.

If wages are secured, then this process may be imagined the other way round. It would be workable without difficulties, to make payments dependant on self determined work for the common good, which means non-commercial. Unconventional projects may be proposed here as well. Anything that happens is better than if nothing happens at all. The result would be that the unemployed person would transfer the money into the area of work in which he becomes active. If, for instance, someone took up a job in an environmental organisation, then his unemployment-pay would flow into the budget of this organisation and from there to him. The organisation receives its funds from those who work for it.

The largely free choice of work renders any forced labour obsolete and supports individual motivation. The income-support through the unemployment-insurance could be 100% during this period, since society has an interest in keeping professional skills and experiences available. Only later would a new classification of income be stipulated according to the actual activity.

How to differentiate between full employment in ones old profession, full employment in a chosen activity, basic and advanced training and finally inactivity would of course need a sophisticated discussion. This gets easier, the more common the understanding becomes that this should not be about financing as such. The belief, that unemployment support is a waste of money, which actually belonged to the wage earners, is what makes any decision-making so difficult these days.

Objections

Some of the objections, which one finds regularly in public debates, should be addressed here:

1. *“It is the money of those earners who are saddled with deductions, with which the unemployed are paid.”*

This argument has already been shown at length to be ungrounded. But such an idea is enforced by the fact that, contributions to the social income (income in case of unemployment) in many countries are drawn from wages. This is fundamentally wrong, since it creates the impression that something, to which one should be entitled to, is taken away again.. In reality it is a part of the income, which only gets paid in case of need. If someone privately safeguarded against unemployment and thereby against loss of income, they would have to keep back a part of their current income. In this case it becomes clear, that it is an additional component of the salary, not a deprivation. Instead of “gross-salary - social costs = net salary”, it would be much better to talk about “individual salary + social income” in the pay slip. Wrong concepts lead to false social sentiments.

2. *“The unemployed have an advantage, because they get paid for doing nothing, while the others are doing additional work for them.”*

This argument doesn't hold true, because a large proportion of productivity does not come from additional work, but from technology and production-processes. On the other hand, one has to stay aware of the fact, that unemployed people usually lose their job without being asked. They get pushed out because of the increased efficiency. And it's the pre-conditions for unemployment-pay, which hinder them to become active.

3. *“Through such social redistribution, purchasing power is lost.”*

Of course no purchasing power gets lost in the national economy. On the contrary: Where the need for income is greatest, the need to buy is also the greatest. This rather tends to increase the speed of the circulation of money. The only difference is who is doing the expenditure.

4. *“The creation of capital is hindered by this and at the same time it damages the competitiveness of the economy.”*

On the one side it is correct, that more capital would be available if there was full employment. That this is not the case now is a fact, not a hypothesis. However, the capital-costs, which are referred to here, are marginal, compared to the enormous finance-transactions which are, for instance, being pushed around uselessly at the stock exchanges. Whoever argues that these stock exchange movements were necessary, has to accept also, that income is even more necessary. (Solving the question of meaningful economic use for capital is overdue and needs to be addressed on the level of monetary processes. There is no lack of capital as such; there is a lack of will to invest.) If enforced labour is being considered, then "enforced investment" of capital would be even more justified. A person who is not willing to work is denied income, but capital owners who are not willing to invest, are allowed all sorts of speculative transactions.

5. *"Such a stipulation hinders growth."*

Here cause and effect are confused. It is not the stipulation that hinders growth; it is lack of growth, which makes this stipulation necessary. Growth, which would include sinking wages and social expenditures, would be no growth from the individual point of view and would therefore be redundant. In a democracy, the question whether or not to pay for unemployed people is not legitimate.

6. *"Competition demands for low social costs."*

Social benefits are not "costs" they are redistribution. The fact that other countries have non, or much lower, social benefits as a country like Germany can not be denied. Although, sales figures are influenced by a lot of factors, including over-all-productivity, quality, service, reputation, innovation and so on. How this interaction is going to work out in future is certainly one of the most important issues in international co-operation. The development of whole continents depends on it. But here too, the solution has to be found where the problem lies: Arbitrary competition under any conditions needs to be supplemented or replaced by agreements.

Trying to solve the problem of unemployment by cutting back on social benefits will only make it worse. Only a solution with some kind of value added tax (or expenditure tax), as has been discussed briefly in this chapter, will turn the social expenditures back into what they actually are: an issue of internal social distribution, or re-distribution. It would be a way out of the „globalisation trap“, because this competition-neutral form of financing the social systems.³ However, chances are, that this would bring to light the real reason for the present development: a blatant and increasing loss of social and democratic attitude.

Conclusion

Unemployment in its present form is a symptom of social disease. However, this is the case only because the released potential (while not all "releases" are desirable) has not found a meaningful, positive effectiveness, which would enhance social life. The reason we talk about "unemployment" instead of "potential for freedom", is because the financing is not solved.

It is arguably the wrong impression, that unemployment is being paid for at the expense of others, which leads to the ongoing, and mostly futile, demand for more jobs. Unemployment

3 cp. Where to Go with the Social Systems? I.c.

and lack of income are two very different issues, which are not directly linked. It would make just as much sense if such jobs never came back. As long as this development is triggered by progress in productivity, there is no decline in supplies. (The scope of the measures mentioned above is hardly worth talking about.) The difference is only, that improvements will not necessarily turn into an increase of gross national product but rather into a change in quality of life and work.

In proposing these changes, no moralising is intended. Rather they emerge from an impartial macro-economic thinking on the basis of our democratic basic order. The latter not only postulates individual rights of freedom, but also social responsibility for the fellow human being. Lack of income because of unemployment would be a grave injustice. Restoring the income of the unemployed is not an act of generosity; it is an act of justice. An economy, which is not sharing its fruits in solidarity with all, cannot and should not exist in a true democracy.

Harnessing Money Within the Social Organism

Forces of Money Unleashed

Money pervades all of our social life.¹ And although we are constantly handling it, its forces and effects are hardly understood. "I don't understand anything about money" is a popular, disarming phrase; we use it to announce - playfully and indirectly - our "sovereignty" in relation to money. In view of our present state of consciousness in which the freedom of our actions is based precisely on the understanding of their roots, such a phrase - if in fact it is meant seriously - signifies exactly the opposite: the surrender of our sovereignty in shaping our social life. This lack of understanding, which reduces us to acting blindly, is an important factor in the uncontrolled and excessive growth enjoyed by the forces of money in the social organism.

Money is a means for achieving social purposes. The idea that money is connected with a social responsibility is widely fading away. As we think more and more in monetary terms, money begins to exert its own power until the means becomes the very goal. Symptoms of this subcutaneous transformation can be found on many levels of social life:

Although it is obvious that real value can only be generated as output of a productive process, investments in stocks and derivatives are presently more interesting than investments in real productive assets. Many companies earn more from their paper investments than from selling their products and services. Even in bankers' circles, there is criticism of the tendency that "Stock prices are inflated by huge volumes of accumulated idle money, which seem to seek proliferation only in this non-productive way"²- The most influential position with respect to our economic life, and consequently also to our entire social life, is held by the central banks, whose task it is to regulate the economic process by adjusting the currency supply and the interest rate. Often, however, this regulation takes the form of downright controlling: regulation dominates real life. By acting in the spirit of "Why, money simply comes from the bank", money can be made into an end in itself. The huge volumes of debt in private and public life owe their accumulation largely to this attitude. Many fall prey to this illusion: for instance, when jobs are preserved for the sake of buying power; or when it is attempted to influence economic cycles by injections of capital or of administration-generated jobs, by tax reductions, or deficit spending.

The emancipation of money as an end in itself has severe consequences for the development of our social life, for as interest focuses on money, it moves away from human beings and from the real social effects until they are completely lost. With a slogan like "More money from money" (headline in *Süddeutsche Zeitung* Supplement, Oct. 23, 1985) the real social processes fade into insignificance.

- When it loses its ties to social responsibility, money is reduced, in fact, to chips in a game. But this game can flip into the full seriousness of real life at any moment since the money it

1 What follows here is based on suggestions of Rudolf Steiner in his *National Economy Lectures - Nationalökonomischer Kurs*, GA-Bibliography no. 340. For some concepts, however, documentation is dispensed with since this is an attempt to develop the essence of money from the social context, rather than a systematic treatise.

2 German Journal „Spiegel“ no. 28/1987: Börsen sterben plötzlich am Infarkt - Sudden Death of Stock Exchanges by Infarction.

uses is the same as in life itself. The game owes its thrill, but also its danger, to this double role of money. If the chips were to be fed back into real social life on a large scale, their unreality would show itself at once. To keep intact the illusion of monetary proliferation without social responsibility, new forms of capital investment are continuously being developed and offered, "slammed into the market" as the manager of the Chicago Stock Exchange said in an interview.

- The volume of money that is being tossed back and forth at electronic speed within "the financial village called the world",³ unrelated to any tangible assets, in search of profit from exchange or interest rates (or merely to escape corresponding losses), amounted to 500 milliard US\$ already in 1988. Meanwhile, the economic welfare of the world has come to depend sensitively on the movement of these masses of capital. Unchecked by social considerations, they become socially irresponsible; even concerted efforts of the central banks are hardly able to resist their joint onslaught. In contrast, investments in productive assets can hardly escape the effects of economic cycles; the investor must enter into long-term social investment. Having sacrificed mobility, his capital suffers all the more from the effects of the rapid capital movements all around him. In recent years, we have seen abrupt changes of currency exchange rates turn profitable enterprises into financial disasters within moments (and vice versa); transactions of mobile capital were largely responsible for this. Mass psychology tells us how an initial motion attracts followers, and a snowball grows into an avalanche - while investments in real, productive assets have to stay in place. Unbound capital mobility produces chaos in the real economy; thus the financial and economic policy of our states has to be directed, to a large extent, towards keeping this unchecked financial market in good spirits.

This unrestrained development of the finance sector brings about a purely monetary economy. It draws its sustenance from the real economy, but has little to do with it otherwise. The money trade with its various branches already rules the large centres of the world, as witnessed by its investments in ostentatious high-rise buildings. Its shares are in demand and regarded as safe, its high-paying jobs are felt to be full of promise for the future. Money has become a commodity, packaged as "products" of shares and derivatives, daily confusing the layman by the broadening of the portfolios offered. For a long time now, existing productive assets have been insufficient to bind the volume of profit-seeking capital. Speculative anticipation of future developments is driving investments in the direction of games of fortune, producing the "Casino Mentality" reproached by Jaques Delors, president of the EU Commission, after the stock market crash of October 1987.

Various reactions could be conceived to meet this development (whose description could be extended and deepened at will). Turning a blind eye is one way, especially for those who profit from the present affluence and feel no need for change. Another attitude puts its trust in the authority of present economic and political leaders and their well proven "last-minute-creativity". Anyone intent on making his own contribution towards meaningful change, however, will have to enlighten himself about the nature of money. This nature is revealed either when we survey the historical development, or when we observe the many inter-linkages of money with social processes. - The forces of money are unleashed when its ties to social responsibility are severed. Considering money without regard to the formative forces of social life would only carry us further into illusion.

It's like the tale of the bottle imp. His ominous growth, once the bottle is opened, terrifies us. But he is willing to serve us, serve our well being - if we have the right wishes. How can we employ money in such a way that we need not spend our third wish on putting him back into the bottle?

3 Expression coined by Mr. Christians, CEO of Deutsche Bank.

The Development of Money in History

The nature of money is difficult to describe by itself, because it is intimately connected with social processes; in fact it can be said to be an expression of these processes. Attempts to base monetary theories on definitions must therefore remain unsuccessful. Admittedly, "explanations" of money as a means of exchange, a means of value storing, or as an indicator of barter value deepen our knowledge and understanding, but they do not reflect real life unless they are related to the course of social processes and to the part played by money in these processes. Following this path, one will have to acknowledge that what is theoretically viewed as a tripartition always appears as a life-filled unity, but with multifarious variations of the interplay of the parts and that the quality of the effects caused by money changes with the evolution of the social processes. Money becomes involved in processes occurring in time, and it develops a time-contour in itself. A modern understanding of money, and a corresponding system of monetary order must have this inner mobility and be able to express it. They must be dynamic.

Such a living picture of how the nature of money unfolds through several stages can be obtained, admittedly extremely condensed and with resultant incompleteness, from a survey of the historical development. In this picture, money is embedded in the whole stream of development of the human race, in particular in the changing relations between the individual and the community. Four stages of this development will be sketched here.

1. An age without money

From the dawn of history to the cultures of Egypt and the Sumerians, money has no essential place in life. Economy and social life are essentially agricultural, focused on self-sufficiency. A theocratic order determines the rate to be given to the ruler and his authorities. Other needs of the community such as military service, building etc. were rendered by direct personal service. The social order was laid down by the mystery school that ruled the culture, so that everyone accepted their social position as given by divine authority. In Sumeria, products to be exchanged were brought to the temple, and priests determined the appropriate counter-exchange (today we would call it price).⁴ Also trade, in that age, was a direct exchange of products.

2. Money as a commodity - the unfolding of barter trading - purchasing money

Out of the dusk of ancient mysteries, the first forms of money emerge: first as small pieces of metal, and coins of gold, silver, copper and even iron. They are stamped with the images of gods, or other divine symbols; later with the heads or insignia of rulers, until finally only the abstract insignia of modern states remain. Quick diffusion of the use of coins and money was assured by its enormous power of simplifying trading exchanges, the practicality of handling money instead of produce or goods, but also the possibility of value storing. The new money-trading economy caused Aristotle to add the new science of chrematistics (monetary gain) to the old science of economics in the sense of husbandry. The close connection of money to gold or other metals was an indispensable condition of this development.

When a seller receives from the buyer, say, a gold coin in exchange for his product, he is not motivated by the gold as such. Rather, the exchange is motivated by the fact that the money documents the bearer's right to receive, at a time of his choosing and in a transaction with

⁴ Cf., works by Hans Georg Schweppenhäuser: *Das kranke Geld - Sick Money*, Tübingen (DE) 1971, and *Das Mysterium des Geldes - The Mystery of Money*, Freiburg (DE) 1981.

any chosen partner, equivalent goods according to his needs or wishes, all of this within the community which accepts this money as valid documentation: a real product is exchanged against a promise to be honoured in the future. The partners will enter into such an exchange only if its long-term validity is ensured by stable legal conditions in the community. The instability of legal conditions over the past 3000 years would not have allowed the actual, vehement development of money had not the money been made of precious metal. A gold coin, after all, is not only a certificate with legal power; it has inherent value by virtue of the metal. This allowed coinage to survive times of uncertainty and trouble; at worst, the coins had to be re-minted. The metal coinage of earlier times was, in fact, real commodity money; its value being given, as for all other commodities, by its weight.

What evolved in that era of commodity money was mainly the role of money as a means of exchange in buying and selling. Thus, money was primarily *purchasing money*. Fresh money could be introduced to serve as additional purchasing money by minting newly mined or conquered metal, using the new coins to pay for expenditure. This state of things favoured countries that possessed precious ore deposits or the military power to capture coinage metal. On the other hand, there was the painful experience that unchecked proliferation of coinage, as for instance in the wake of the Spanish conquest of America with its famous gold treasures, would lead to inflationary poverty when no products were left to spend money on. That the scarcity of precious metals imposes natural limits on money supply was not appreciated in early times. However, it keeps directing the attention of theoreticians towards a gold-based monetary system. Such a system would isolate the money supply from human arbitrariness, calming the hectic economic turbulence of our age. History shows many attempts to escape this natural limitation, from the admixture of baser metals practiced by sly rulers to the unchecked use of the printing press in our time. They show the justification of staying with a system of money that has inherent commodity value, but at the same time the impossibility of doing so.

From the viewpoint of human consciousness and social structure, the era which brought the development of purchasing money was one of accelerated emancipation of the individual from his ties to ancient mystery wisdom and from social structures based on that wisdom. Man is developing self-awareness, and self-confidence follows; universal citizens' rights and early forms of democratic order are emerging. From the beginning, the use of money was one of the common citizens' rights. The responsibility for the social and economic order moves from the sanctum of the temple into secular life. Prices become a matter of negotiation between seller and buyer. - Step by step, social life is reduced to a matter of money. Direct personal services are replaced by monetary transactions: soldiers' pay, taxes to be paid in money, the sale of fiefdoms and other rights, etc. A scarcity of money results, enforcing a re-orientation in which individual productivity is determined by saleability (market demand) rather than personal requirements and producibility. Towns and craftsmen profited from this, but the rural population was thrown into the deepest crisis. Cash was in short supply in an agricultural world based on family husbandry, and the perpetual claims for money often could not be met. Towards the end of the Middle Ages, excessive debts had thrown the majority of peasants and farmers into bondage. (In contrast, a tithe taken in natural products can at worst produce poverty.)

3. Money as a legal certificate without commodity value - The rise of productivity - Credit money

In the New Age, with its rapid colonial and technological world-conquest, money, too, reaches a new stage of development. Interest no longer focuses on money as a means of exchange, but as a means of credit. (These different forms of money were developed consecutively, but continued in independent existence, adapting to changing conditions.) Mankind is becoming enterprising. Enterprises are directed towards the future; they need two things:

useful ideas and capabilities on the one hand, and start-up capital for the long trek to the future goal on the other. Credit forms a bridge where capital is not present to support capabilities. By developing viable forms of lending, the aptitude potential of mankind is opened up, set free as reliable forms of credit are evolving. In the case of purchasing money, we ask what we can get for it, but in the case of credit money the question is what can be achieved with it. Money's commodity value is fading into the background.

As mankind's spirit of enterprise is breaking free from its natural bounds, it becomes impossible to keep the volume of money within the limits set by commodity supply. We may recall that the first experiment with paper money, by the Scotsman John Law, was connected with the financing of colonial ventures. Paper money has neither material value nor commodity value - it simply documents a legal claim. In order to wean cautious citizens from the safety of commodity money, Law offered security through land property rights; later the gold standard was introduced. A paper note could be exchanged at will against a certain quantity of gold. This complete gold backing was later reduced to fractional backing to increase the latitude for credit. However, gold or silver coinage continued to be used concurrently. In 1971 the USA brought the transition to its end by abolishing the gold standard for the dollar. Having served its catalyst purpose, gold now reverted to pure commodity status. Money, on the other hand, has completely assumed the character of a claim certificate. Its administration has passed from the hands of the sovereign to the central banks and the commercial banks connected with them.

Over time, it has been realized that new money may enter the economy only in the form of credit money. In this way, buying power is set free while simultaneously a corresponding production of goods is induced, avoiding the imbalance which earlier caused inflation, and instead establishing a new balance on a higher level of supply. When the printing press began to be used for new money, the question arose: how much credit and new money can be allowed to flow into the economy, and how is this to be decided? The invention of cashless money transfer has aggravated the problem. Earlier, banks could lend only out of savings deposited with them for a certain time; now money transfer is possible without currency ever (physically) leaving the bank, since incoming transfers balance outgoing amounts. Technically, this would allow the credit volume to grow beyond all limits. The process is called "creation of credit"; its only limitation lies in the fact that some money is still in physical circulation as cash, and that the money supply has to be shared by many different banks. Each bank has to keep a certain amount of money available for cash payments, the cash reserve. Its percentage, in relation to the total credit volume, is regulated by the central banks. Two of the factors limiting the total money supply, social habit and the competition between banks, are purely extraneous and will come to be eliminated by future developments; the action of central banks, on the other hand, is a first step towards a conscious regulation of the money system.

As the system of credit money evolved, the productivity of enterprises became the subject of productivity euphoria. The resultant frenzy of economic growth totally ignored social fairness. Wages, as the "price" of work, became costs that had to be minimized. The heights of productivity reached during the first era of industrialization were at the same time lows of social relations. Ricardo's "law of minimum wages" predicts that wages will converge towards the subsistence level, where life is reduced to mere survival, and existence falls back from the human level to that of the animal.

4. Money as a means of shaping social order - Man as bearer of productivity - Gift money

The unfolding of the effects of money enters a new stage as the social question arises once more, and its connection with money-pervaded economic life is being sought. The salient point is not so much *that* this happens, but rather *how* it happens. Experience in this field - short as it is - shows that the trend towards top-down authoritative organization in the social area is still very strong; in fact, "social" arguments serve to support and promote the formation of top-down, administrative structures. At this stage of development, it will also be decided whether the inflationary power of money will continue its course independently or whether it can be reined back.

The new phase began while the development of credit money was still in full sway. A new social conscience awoke, in opposition to the egotism of the free market economy which finds expression in the attitude "everyone for himself as much as he can", while its expected benefits could be realized only by entrepreneurs and capital owners. Socially responsible, far-sighted entrepreneurs tried to establish a more human and fairer basis for their company personnel and their social surroundings (Robert Owen, Werner von Siemens, Henry Ford ...) In cooperatives, the workers themselves were to join the ranks of entrepreneurs, or to form communities based on the principle of mutual solidarity. In the workers' movement, workers were initially encouraged to raise their level of education in workers' study societies. Later, trade unions were formed to redress the imbalance of negotiating power vis-à-vis the employers. The political-ideological movement of Socialism claimed that social unfairness would be eliminated at the roots if the workers' class dictated social conditions. The greatest effects, however, emanated from the evolution of democracy which allowed social considerations to come into force by and by, leading to various forms of welfare state. The ancient collective societies' way of forming protective structures under the guidance of their mystery temples was now replaced by the social network of the modern state, which is based on the democratic idea of equality. It is no longer the product, no longer the investment in productivity that stands in the foreground of social endeavour - now it is man himself, the bearer of productive capabilities, with his right to an existence in human dignity.

How do we ensure that every citizen has enough purchasing money? This is a question of how money is shared among the population: what *share* should the individual receive of the *fruits of collective effort*?

The problem of remuneration can only be solved satisfactorily and realistically by establishing a rule for sharing, since the goal of economic life can only be to improve the quality of life for *all who took part in the effort*. In addition, the insight is growing on us that wages are not only costs, but in the first place, they provoke demand, provide buying power through income - which makes them the very motor of the economy. Even fairly high wage levels should not blind us to the fact that wages are still considered, predominantly, as payment for work; that the proceeds of a business are still seen as the owners' property, and that wages have to come out of this property. Social expenditures are regarded in the same light. Aside from the fact that widely disparate social relations are comprised under the heading of social expenditure, the term triggers incorrect mental pictures and inappropriate sentiments. For the amounts that go to children, to the aged, the sick and handicapped etc., are simply not "costs" in the sense of deductions from the income of the productive people. Instead, a share of the proceeds of the economy is due these groups of people from the beginning, because they are part of the whole of our life. Let us not overlook that we ourselves are economically productive (in the narrow sense) only through part of our life; for the remainder, we too are dependent on the share that goes to the "non-productive" part of the population.

Re-orientation is occurring also in the area of credit money. While up to now, "social investments" were the exclusive province of the state, people increasingly demand to know what happens with their savings- beyond the fact that they are producing interest. What kinds of business have received loans from our savings? What products are being made with the help of these loans? What are the borrower's social attitudes and behaviour? An awareness of responsibility is awakening among savers and investors that in earlier times reached only as far as the bank counter. Here, too, we see only cautious first steps, often fraught with illusion, for our work-sharing economy connects us to all others to a much higher degree than what our new investor's morality would like to see. The "humanisation" of work also belongs to this complex. Here we face an important choice. While one faction struggles to impregnate economic life with humaneness, the other deems that impossible, clamouring instead for a radical shortening of working hours so as to have more leisure for real human life.

In the context of "free time", the novel way in which money can work is revealed most clearly. Re-distribution of income (or better, a different distribution of income) leaves income wholly embedded in the productive economy, actually strengthening the ties between income and production. Leisure time is diametrically opposed to productive work time. "Social investment" calls for a re-orientation of work, but not for its abolishment. Work time is cut back to create free "living space" not devoted to production. In our free time, we are just consumers, using the resources of the economy for the care, the development and unfolding of our own individuality. Unless such free time is to become a burden to our supply situation and our affluence, it must be made good by increased productivity during the remaining working time. The necessary improvements result from human ingenuity, which in this way creates space for its own nurturing. This is true for all our cultural and spiritual life. Satisfying the needs of our soul and our spirit is possible only when our economic productive power is sufficient to support us while we tend to other things for a certain time. The way in which we count our gross national product, by indiscriminately adding the value of all goods produced and services rendered within the economy gives a misleading picture. Reality is different. For when I pay a certain amount for the product of intellectual work, such as this book, the transaction does conform to the basic pattern of exchanging a result of my work against a result of the seller's work - but merely in form, not in substance. The proceeds of the book transaction must not simply be added to the general creation of value because it consumes an economic value (lowering the GNP) in order to enable the creation of an intellectual/spiritual one. Thus in fact, the transaction corresponds to an equilibrium between a process of building-up and one of destruction. The latter process allows spiritual life to appear. - The acting forces are spiritual in both cases: in production-oriented economy, what counts - beside the natural basis - is human ingenuity directed to a certain concrete goal; in cultural and spiritual life, on the other hand, what matters is the spirit itself, its nurture and shaping. This cultural life exists only in so far as we feel a need for it and support it economically. As a rule, we must not expect any immediate economic benefit from this. If we did, we would be subjecting our individuality - which is only to be found in the spiritual realm - to economic interests.

Money spent in exchanging a tangible economic asset against an immaterial, "airy" spiritual value, without *economic* compensation, we rightly call gift money. For it is the nature of gifts that no direct compensation is expected. This holds also for the case in point, where we have paid a "price". Of course, what matters, as everywhere in life, is only to point to the poles of the two counteracting forces, knowing that they never really appear in such isolated form.) However, we should remember that it is the realm of culture and spirit that fosters the capabilities and demands which feed economic development, both now and in the future. What manifests itself as merely consuming at the present will become productive in the future. What we see appearing as creatively fruitful in the area of credit money germinated at some earlier time in a spiritual life centred around education.

The necessity of a free, self-responsible spiritual life manifests itself in two ways. On the one hand, it is precisely the economic life of today that demands a huge effort of education, an

effort that can not end with school, but must continue into permanent self-education. Today's enormous stress load requires a new strength of the mind; the complex view of our world requires new cognitive powers; the need for change requires new forces of will. - On the other hand, we also need the facet of pure consumerism in our age. The rise of human productivity, together with ever stronger exploitation of natural forces by technology, has increased our capability of generating goods and services to such a degree that we need to keep ever tighter reins in putting it to use. Attempts to funnel back the steady surplus into the economy on the plane of purchasing or lending money have long ago met their limits. With saving rates of up to 16 per cent, consumption has reached saturation so that business is largely reduced to replacement and upgrading. Neither is there much scope left for further objects of investment. We are being smothered in liquidity (while at the same time money for "non-profit purposes" is missing). In addition, if we kept re-investing our surplus - to achieve more surplus -, the result would be an exponential growth, which would bring about a collapse of the economy under the weight of its own production. The economy is dependent upon a sufficient number of mere consumers. Why there is too little gift money will have to be considered later.

Superficially, the evolution of gift money has not changed anything in the money system. Only the system of cash-less financial transfers with its regular account statements makes us aware, more than a cash economy could, of the fact that the distribution of money actually reflects the complete bookkeeping of the social organism. As money disappears from our sight, our consciousness becomes free to perceive its social effects, in terms of statistics and accountancy. But serious interventions into the social processes, both real and monetary, are necessary unless this perception is to stay in the abstract.

Purchasing Money

"The sole purpose of money is to spend it"
Thomas Aquinas.

Purchasing is the basic province of money. Any work-sharing social organism is categorically dependent on this function being available in the right way. For at the end of the day, all goods that are produced must be exchangeable by buying and selling.

The intervention of money splits the act of exchange - originally an undivided whole - in two: product for money, and money for product. Concrete barter is turned into the right to any product at all. Here lies the brilliance of money as a means of exchange. But new questions arise:

1. How can we ensure that everyone gets precisely the products he wants?
2. How can we arrive at a fair price?

Both questions are closely related. Market economy regulates supply through price setting, but in doing so, the principle of fair price is replaced by competition-enforced cheapness. Planned economies have tried to unilaterally fix the supply, sacrificing the buyer's freedom of choice and the proper function of price itself. Both systems are lopsided and unsatisfactory, and this is not improved by simply incorporating features of the opposite system (market economies are, in fact, continually planning and colluding; the planned economies allow partially free markets, for instance, in the area of agricultural products).

In the chapter about associations it was shown how satisfactory solutions to both questions can be brought about, again and again, in an associative economy - but not before this exists. This is the very mission of purchasing money in social life. Any other economic system

will rest on fragile foundations. When the living whole of bartering is broken in two, with money stepping in between, the mirror of consciousness appears. Not until price appears in this mirror do we gain the clear awareness of social conditions that we need as the basis of our actions in the present age.

There is a third problem, and the only possible preventive therapy for it is already indicated above:

3. How can we avoid that buying and selling, the two halves of the original whole of the barter process each come to be regarded as whole in their own right?

The illusion of independent completeness, which is attached to each of the halves, gives money the character of a commodity like any other kind of physical commodity. This prepares the ground for a competition between money and goods which money is bound to win because of its special features. Social life knows rhythms, and purchasing money must take part in these rhythms. However, money per se has nothing to keep it still except for the processing delay of financial transactions. Present "fashion" in all commodity markets tends to uproot the consumer from the habits and rhythms of his individual life, making him conform to money's urge for speedy transaction.

As money keeps moving from hand to hand or from account to account in the rhythm of buyers' habits, its role keeps changing between single-purpose (received or spent for this particular product) and ambiguity (as long as its use remains undecided). The buyer, in spending his money, relinquishes his former claim for receipt of goods; on the side of the seller the money received represents a new claim. The claimant changes, the claim remains the same. This latter fact is not sufficiently recognized by some thinkers who are fascinated by the quickly moving wave of claims - particularly in the era of carrier-less book money. The claim represented by money is made permanent by this guarantee, and that can have serious consequences as shown by the fourth of purchasing money's problems:

4. How can we ensure synchronism in time between the calling-in of the claims and the availability of the corresponding quantity of goods?

Money received need not be spent at once. There are good reasons for storing part of it: saving, plans for a sizable acquisition, security in view of life's risks, capital for going independent etc. Sometimes the saver is driven by the instinct that lets a dog bury a bone, or he just does not know yet what to use the money for. Increasingly, however, there is the motivation of interest that can replace earned income.

Saving initially throttles the circulation of buying power, upsetting it. Saved money leaves the sphere of purchasing money, although of course it could revert to buying at any time. But buying what? And when? In the area of purchasing money, there is simultaneity of exchange, but in the case of saving, money and product bought follow diverging dimensions in time. While the economy needs continuity in production and consumption, the guaranteed claim represented by money assumes almost indefinite longevity. Money vies for the future in competition with real commodities; this competition is unfair from the outset. Money must not be allowed to draw advantage from this competition unless we want to reward the part that caused the damage. The problems of damage and advantage will be considered later; their cause lies at this point in the sphere of purchasing money.

At this stage, we should consider arguments proposed by *Silvio Gesell* (1862 - 1930). He postulates that the unfair competition between money and product begins at the very moment of buying. In the exchange of product against money, the money owner has the advantage, because the limited viability of the product puts the seller under duress, lowering the price. (This principal advantage of money is the origin of interest on money.) This is the way of his argument: "Thanks to its durability, money is the preferred form of value storing; all

other trade goods are perishable and draw high storage costs. Since it is impossible to make other trade goods as durable as money, the only way that remains is to make money as perishable as trade goods.”⁵ In the sphere of purchasing money, this way of arguing is not right. For the money owner is always subject to needs and wishes, he feels demand: the perishability of trade goods is balanced by his own perishability. The equilibrium holds on the global scale; individually, the urge to exchange may be different on both sides. Consequently, as long as money is actually purchasing, it draws no advantage from its longevity. - Gesell is actually looking only at the merchant who is placed between producer (seller) and consumer (buyer). In the merchant’s case, money and trade goods are just means for transactions that bring in money. Commerce meets the producer as buyer, the consumer as seller. From this position, which only prevails for commerce since the trader is not interested in consuming the trade goods himself, he draws a profit that materialises as interest on money in contrast to earned income.

This argument overlooks the fact that with his trade goods, the merchant also acquires the risk of their perishing; on the other hand, the impatient buyer may switch to a competitor. Beyond that, we have to realize that the problem of commerce is not one of the money system, but one of the organisation of the economy itself. This can be understood when it is realized that Gesell, at the time, was a died-in-the-wool market economist. Situated between production and consumption, the specific function of commerce has no special place of its own: in a scheme based on supply and demand: trading is either supply or demand! Demand without the intention to consume, and supply without intention to produce, leaves only the aspect of gain through interest. Therefore it was necessary to stress so strongly the fact that the main problem in the sphere of purchasing money is how it can be thoroughly filled with associative activities; if this succeeds, commerce will be re-integrated into the real process of social life.⁶ What needs to be done in the sphere of purchasing money is not to make money “perishable” - that would merely be treating the symptoms - but to regulate the process of buying in such a way that money can not be made a trade object.

1. Inflation and deflation

An exchange mediated by money in the manner of our time differs from barter in that the money received does not become visible until it is spent. How much we receive in goods and services for a certain unit of money determines the buying power of our money. This varies as prices vary. For the individual, this can have grave consequences - when the change directly concerns the circumstances of his life, as for instance the price of the railway ticket in the case of a commuter. In the whole money system, these changes do not become relevant until the price level changes as a whole. To monitor this, we must not simply add up the prices of all goods: they have to be weighted according to their importance. Typical patterns of living expenses have been established; in Germany, the statistical model is the typical family with two children, average income and average consumption of goods and services. The percentage change of this “cost of living” is the most popular measure of the rate of price rise or fall. When the cost of living rises, the buying power of money falls and we speak of inflation; when the cost of living falls, buying power rises and we speak of deflation. The long-term trend points clearly and exclusively upward: a Swiss franc of 1991 bought only 25% of the goods it did in 1939. Thus its buying power dropped from 100% (in 1939) to 25% (in 1991), or in other terms, the price level of goods has risen to 400% of the 1939 level. Since economists everywhere strive to avoid large-scale deflation, we begin by looking at inflation.

5 Silvio Gesell in: Emil Georg Diehl, *Zwei Berufs-Ökonomen und ein Außenseiter - Two Professional Economists and an Outsider*, Villingen (DE), 1977.

6 Cf. above.

A wide variety of factors may cause inflation. The usual definition in economic and monetary theory of currency supply exceeding the supply of products can not do justice to them all.

1. Economic causes. Mainly the costs of wages and raw materials have to be considered here. Wages are adjusted in proportion to the rise of the cost of living. However, since wages are considered part of the production costs, higher wages must drive prices upward - the wage-price-spiral - unless there is a concurrent redistribution of income, or an increase in productivity with consequent overproduction or unemployment. This mirrors the problematic state of things where wage-earning work is considered in isolation instead of recognising wages as the workers' share in the company's income. Income sharing can only share what is there; thus it can never become cost-driving. With raw materials, scarcity of reserves or tardy delivery may inflate prices in individual cases, but in the main, the cause is to be found in the correction of old injustices in international exchange. In general, the producer only takes what was not rightly ours in the first place. - What is called "demand-induced inflation" cannot really affect the global price level, since it merely causes redistribution of money, so that somewhere, less money is being spent in compensation. This makes global under-supply the real problem from a purely economic point of view. In this case, an inflationary change in buying power would indicate that money stemming from earlier or other sources no longer has sufficient backing.

2. Legal considerations. As was shown with respect to wages and raw material prices, the real problems concern questions of fairness, or - as in the case of price rises - of redressing old injustices while possibly creating new ones. The third world's claims for fair prices belong in this context. Also interest payments attached to property rights - both land rents and interest on capital - fall under this category.

3. Cultural factors. We keep discovering the necessity of repairing damages caused by earlier behaviour. Such reparations can not be sold like new products; according to the causation principle ("polluter pays"), their cost must be added to the earlier production costs. We see production costs rising as a consequence of improvements in product quality, environmental protection, working conditions etc. - Putting all these price-raising factors under the heading of inflation and trying to fight the whole cannot but confuse the issue.

4. Monetary considerations. Not only are social conditions mirrored in money, there are also effects of money mirrored in the social sphere. To what degree are inflationary phenomena caused by the present way of money creation and credit formation? We must also look at the role of saving, as a problem posed by the separation of selling and buying. Finally, an important influence is exerted by aspects of foreign trade, especially by the urge for export surplus which ships goods to a foreign country, bringing back foreign money which then changes into home money and becomes active on the home market, creating additional buying power.

Inflation has very different effects. In the area of purchasing money, the effects are relatively small, since circulation keeps the time lag short. As a rule, the present month's wages are spent within the month, the year's income is spent within the year. Loss of value does not become a problem for the purchasing money already in hand; the question is whether the next income will follow the rate of the inflation. That is why income today is often linked to the living cost index. The same is often true for prices. This practice alleviates the effects of inflation for the individual, though at the cost of promoting inflation and making it more permanent. Difficulties do arise for individuals whose income is not adjusted at the rate of inflation, or not adjusted in time. - Quite different effects occur in the area of credit money. A fortune that is tied down over many years would be eroded, step by step, by inflation. That owners strive to defend their fortune appears understandable at first look. One form of defence is to increase the interest rate in analogy to the income (which increases at the rate of inflation or faster) More and more, credit is granted in terms of real interest, where the rate of inflation is counted against the nominal interest. The lender wants to keep the amount he has lent as

intact as possible. The position of the debtor is opposite. His "fortune" is negative. For him, inflation means that his debt remains constant on paper, but in reality, it decreases at the rate of inflation. If he is one of those whose wages or other income increase according to the living cost index, inflation will help along the amortization of his credit - his debt shrinks "by itself". In this case, inflation produces a redistribution of assets. - In the area of gift money, finally, the effect of inflation is most severe: the employee of a foundation has to keep asking for higher income, but can not offer an equivalent increase in production. Permanent price rises - which, with our present system of financing cultural activity from taxes, often take the form of tax rises - and similarly, requests for constantly rising subsidies, will gradually induce apathy in the donors.

Our attitude to inflation is ambiguous. Economic and central bank policy is strictly against it. Stability of prices being one of the four corner stones of the "magic quadrangle"⁷, inflation appears as popular enemy number one. This sounds convincing enough, but actually it lies completely off reality. Is price stability really desirable in our era of technologisation, computerisation and rationalisation? In market economy, the idea of progress making everything cheaper is strongly anchored. For the future, however, we may expect the pendulum to swing towards the side of improved quality and functionality, probably at higher cost; thus, price rises must appear as the very goal of development. Through money we can remedy only that kind of price instability which has been triggered by money. "Neutral money" would best describe what we want - even though neutrality be brought about by total subjugation to social-organic processes.

At the same time, however, inflation is thought desirable, though only in the order of 2 to 4 per cent. With the call for price stability, we protect the formation and accumulation of savings capital (who would want to save in a phase of rapid inflation?), a modest inflation rate is thought to promote the market's demand for products. With buying power being slowly eroded by inflation, a light pressure builds up to promote spending - buying now is cheaper, what you have, you have got. This effect was foreseen already by Gesell, though with different arguments and a different instrumentation. - A further argument for continuous, slight inflation is that everyone is used to it, for example, in wage negotiations, so that a change appears hardly advisable. "No price rise? - Thank you, no" was the heading of an article by Prof. Alfred Nydegger.⁸ The strongest argument is seldom considered: Inflation keeps up the illusion of continuous growth. In a market economy, rising prices, although induced by inflation, suggest more yield - never mind that costs are rising at the same time. Swiss workers' wages have increased tenfold from 1939 to 1991. If the price rise is subtracted, the real increase hardly comes up to threefold. This wide divergence of directly visible numbers from their real meaning, which reveals itself only through interpretation, is a severe obstacle when one tries to fill the numerical sphere with empathy and consciousness.

In one regard though, all economic theoreticians stand united: in the refusal of any kind of deflation. They fear that when the value of money increases, consumers will delay buying to wait for still better times. But the drop in demand would make the economy collapse, and thus the delay of buying will finally have the consequence that there will be no goods left to buy. Some thinkers also take fright at the perspective that debts would become weightier and weightier. - It is typical of the thinking of our age that price falls are not recognized as an indirect way of income growth: only direct increases of income count. While price falls make goods and services cheaper for everyone, regardless of their place in the economy, wage increases bring profit only to those whose wages are being raised. Wage earners and members of strong unions (or other groups united in common interests) profit foremost and fast-

7 The others are growth, full employment, and balance of trade.

8 Basler Zeitung 15th feb. 86.

est, while all others remain excluded, finally finding themselves being artificially forced towards social income support.

While inflation tempts us into illusionary euphoria, deflation makes us sober, even paralyses us. In inflation we may allow ourselves to be carried along, but deflation calls for the conscious mobilisation of surmounting forces. Therefore, inflation will be preferred to deflation as long as our art of shaping the economy stays at the level of bundling together individual interests by means of mass psychology and statistics. To handle deflationary processes usefully, we would need associative economic organs that counteract the paralysing effects that deflation can otherwise induce. To achieve this, price itself must become the object of social negotiation, and the consumer must be a partner in these negotiations. The volume of production must be responsibly adjusted to fit the demand. To the degree this succeeds, the inflationary tricks which fan consumption will become unnecessary, making deflation desirable because it is controllable.

2. Saving

Up to now, we have looked at money in the context of circulation processes in the national economy. In the continuous back-and-forth of buying and selling, claimant and claim keep changing places, while the amounts involved make us aware of the underlying social circumstances. Money plays a central and indispensable role in this circulation, although the moving forces originate from the needs and wishes of the individuals within the society, from their capabilities, their living and working conditions. Work-sharing economy is the fitting, future-oriented social structure, producing circulation and being produced by it. In such an order, the area of purchasing money can not fall prey to sickness; perturbations can only be carried in from outside.

Saving, however, changes all this. At first sight, saving means that present income is not presently spent. Reasons for saving have already been mentioned: from "big" acquisitions to uncertainty about the future, and to mere super-liquidity. All population groups save: in Germany (BRD) at the time of writing this book, 42 % of the total savings were held by self-employed persons, 27 % by employees, 11 % by workers, 20 % by pensioners. In the western industrialised countries, saving has reached considerable percentages: in BRD 13 - 15 %, Japan 18%; in BRD, the volume of savings exceeded 2 billion DM] (1 billion Euro) at the end of the eighties.⁹

The introduction of money radically altered the process of saving. History's most famous example is Joseph in Egypt, who had provisions put aside from the harvest of seven rich years to provide for leaner years. In lean times, the deficit of supply is made good from the stores, ensuring continuous supply. This is not the way we save today, aside from temporary emergency stockpiling - we save in money. From the point of view of the individual, nothing seems to have changed: when money gets short, we take from our reserve funds and buy the goods we need. The "people of Egypt", however, could no longer be helped in this way: if a general supply crisis broke out, it could not be remedied by money. Money would only make the deficit visible by inflationary prices. Thus saving fulfils its safety function for the individual only as long as the whole of the social organism is intact. (The true "value" of savings books became clear in Germany's currency reform after the war, when all accounts were cancelled except for a modest amount paid out in the new currency.) Thus, the bank is really not comparable to the granary of ancient times. The safety of our money is not guaranteed by the bank; in-

9 Theodor Beltle: Die Krise - Folge eines Denkfehlers der klassischen Ökonomie über das Sparen - The Crisis - Consequences of an Error in Classical Thinking about Saving, Frankfurt (DE) 1984. According to estimates of Dresdener Bank economists, the citizens of Germany had savings assets of 4,53 billion EUR in 2007. (Editor's comment, cf. Allianz Dresdener Economic Research, The Newslin Jan. 10,2007)

stead, it is the stability of the social processes - which must be ensured by all of us - that makes our money safe, and the bank with it.

From the point of view of economics, saving is a slowing-down of circulation. Part of the proceeds of sales is no longer spent to buy things, and this brings circulation to a (partial) halt. The totality of proceeds comes from the totality of production. When part of the proceeds is kept back, production can not continue at its former level; in concrete terms, less product is sold, or at lower price. Production must react either by cutting back its volume, or by raising productivity, cutting costs, but thereby reducing the totality of incomes. Thinking through this interplay in its entirety, it becomes clear that withholding the savings from circulation tends to bring to a halt both the circulation and work-sharing economy as a whole. - In such a development, the remaining money gains higher buying power, adding a monetary incentive to the original motivation for saving. Here the saving process merges with the problem of deflationary depression.

On the one hand, it must be possible to save money earned, if the individual is to be free to unfold. To alleviate the immediate pressure of the perishability of trade goods is the essence of money's advantages. On the other hand, value storing by money can not be extended indefinitely, because the value is not really preserved in a storeroom: instead it has to be produced anew at the moment when the savings are to be spent. Saving puts the social organism in a dilemma, not once but twice: first, when the saver withholds money from present circulation, leaving behind him unsold goods, and second, when he finally does spend: then he claims present goods or services in exchange for money that stems from earlier production.

Modern money is just the documentation of a claim. Saving means to delay the claiming. However, claims that are not called in must expire at the lapse of a certain span of time, otherwise the social organism will be smothered by the threat of accumulated claims from the past. In many areas of life, the expiry of claims is accepted usage. In business, claims for goods or services are forfeited when not invoked for some years. Savings are claims that are still un-invoked. Should they not be subject to forfeiture after a certain time, like most other claims - even though our feelings reject this at first sight? This rejection, though, is just a facet of the dominant illusion that regards money as a mere commodity. Commodities are subject to the general protection of possessions and property. Extending commodity status to rights allows rights to be amassed, creating unjustified positions of power.

The necessity of a radical change of our thinking and feeling in respect of money shows itself also vis-à-vis the virtue of thrift. Who consumes little leaves more for others and is rightly held to be virtuous. Who refrains from spending money seems to be thrifty as well. But the considerations above show that this is wrong. Rather, the big saver appears as a person who keeps holding large claims on the social organism, although he neither needs the goods or services he is entitled to, nor does he pass them on to others. A person with this attitude is called a miser. To revert to virtue, he must feed his money back into circulation. As long as he continues not using his money, other uses must be found for it.

Credit Money

1. The function of credit money.

Saving acts as a block-up of the general circulation of values in the area of purchasing money. Not spending means not buying; what will not be bought cannot be produced. Keynes is right in saying "that the principles of saving, pushed to excess, would destroy the motive to

production.”¹⁰ While it is indeed necessary to strip the saving of money of its naïve connotation of virtue, and to re-assess its value from the point of view of circulation in the social organism, we must not fall into the opposite trap of glorifying the spending of money for consumption. Looking at non-consumption only in the light of an obstacle to the unfolding of production makes production an end in itself, which stands the very idea of economy on its head. Hooray for consumption as a national-economic duty and charity!

Unilateral saving is usually called “hoarding”. That bank notes and cash may be hoarded in private homes for a long period is of secondary importance. Much more important is the fixation of money in landed property, all the more because it is tainted with alleged purchasing procedures. Of particular actuality right now is the central banks’ hoarding of foreign currency as foreign exchange reserve.

But the description of a phenomenon is not yet an assessment, let alone a remedy. Blocking up circulation also builds potential. To begin with, dams can regulate a flow of water; then one can proceed to inundate areas that would otherwise remain barren. Finally, the height drop can be used to generate electricity, producing the most diverse effects that have nothing in common, as far as substance is concerned, with the original water. The potential created by savings can be used to regulate the flow of spending, making it more continuous through times good and bad. One can also divert saved money to fields where money is needed, but cannot be made available for lack of resources. Such diversion of money to other areas of consumption corresponds to a donation. Where money is temporarily made available for consumption, and recalled after a certain time, we have a lending process, a consumption credit. When the potential is exploited as such, using saved capital to finance the building-up of new production, we speak of a production credit. In the lending process, the debtor replaces the original saver, keeping to the same consumption behaviour. At the end of the agreed loan period, the saver (lender) gets his money back, with interest.

2. Consumer credit and producer credit

Completely new questions arise when credit money enters the scene. Who is to be granted credit, and for what? How can payback be ensured? How much interest may be demanded? Who is to decide these questions? Other important questions arise from the viewpoint of monetary theory: How to ensure that all savings are fed back into circulation? Is there an automatism that turns savings (S) into investments (I) as claimed by the formula $S = I$? In fact, do all loans have to be financed out of savings? And is the debtor really a fully equivalent substitute for the saver?

Credit money is placed midway between purchasing money and gift money. It is structured in three parts, like every middle part in any organism. The first aspect results from its relation to purchasing money. - Here we must recall the obvious fact that all money, by its nature, is destined for buying. The two other kinds of money stand apart only because of their additional social functions. - In the sphere of purchasing money, shortages can arise, e.g., as a result of social emergencies. These can be due to widely different causes, which the modern welfare state tries to cushion in part. On the other hand, shortage of purchasing money is experienced when demands appear for which sufficient money is not yet available, desires one cannot really afford at the time. Money lent in such cases falls into the category of consumption credit. 1991in BRD, four million households had assumed a total volume of consumer credits of DM 200 (EUR 100) milliards and the banks kept inviting further creditors with uninhibited advertising: “Satisfy your wishes with a personal loan...”. Credit has become a profitable business. [Looking at the social effects of consumption credit, we find that it is a

10 John Maynard Keynes: *The General Theory of Employment, Interest and Money* (1936), Chapter 23, VII.

simple transfer of purchasing money, which allows total consumption to rise without additional input in the economy. But loans have to be repaid, and interest has to be paid. This can only be managed out of future income. As long as all incomes keep growing, at least nominally, the actual effect of consumer credits - diminution of future income - is hidden. But in reality, this diminution means impoverishment. In 1991 every third consumer credit was re-scheduled once, and DM 20 milliards out of the total given above were considered irretrievable. That 56 per cent of these are caused by unemployment only serves to highlight the problem of burdening future income with uncertain prospects. The problem is aggravated by interest. The highest rates are demanded for consumption loans, which are not backed by adding value.

The really new feature in the development of credit money, however, is the credit that is given not for reasons of consumption, but for enabling production. For the entrepreneur who wants to contribute to the development of the social organism, credit has a different meaning. As in the case of consumer credit, the money will be used as purchasing money. But what is purchased is not intended primarily to serve consumption; it is to be used to indirectly produce new goods or services - such a credit creates means of production. A profitability assessment examines whether the financial result is greater than the expense. While the consumer credit leaves the debtor in debt, the production credit creates a surplus, enriching the future. While in the case of the consumption credit, the present puts a burden upon the future, the producer credit creates future gains. The criterion is not what the entrepreneur has consumed, but what he has created. Thus, granting credit for productive purposes is desirable for the whole of the social organism; easy access to credit is the condition which allows all given capabilities to really become active for the welfare of the whole.

Production credit is tightly linked to the capabilities of the debtor. Therefore, we may well say that in fact it is always a personal loan, granted in recognition of the debtor's person. That can not mean, however, that the entrepreneur can be made personally liable. Seen from this angle, the limitation of liability of entrepreneurs through modern forms of law is a welcome advance in social life. But this makes surety, the assurance of the debtor's ability to honour his debt, a crucial question. Here we encounter once more our inseparable connectedness throughout all of our social life. In a market economy, each enterprise stands by itself and has to assume liability for all its loans - which, in a work-sharing economy, is hardly a realistic demand. In a milieu of merciless competition, surety cannot be provided by the individual enterprise. Large concerns sometimes enforce by top-down order what cannot be achieved individually - security beyond the individual enterprise. In contrast, an associative economy would guarantee security by free cooperation in solidarity.

Banks then resort to forms of surety which can be offered by the individual debtor, but lie outside the production process: real estate, plant, machinery, stores of saleable goods, accounts receivable, etc. Personal credit becomes a realty credit. Especially in the case of small start-up enterprises, private property values and life insurances must often serve as collateral, and these are being offered right along with the loan. A person who has nothing but ability and initiative will hardly get any credit. The call for venture capital is heard everywhere. - But the new "green" banks, too, have difficulties with regard to loan securities: they will ask for surety from employees or from friendly companies, classifying the credit as a personal loan.

Here, again, we encounter the illusionary character of money: credit money can not be safer than the economic process in which it is working. The illusion is further enhanced in the eyes of the public by the government-enforced system of savings protection. Who pays for defaulted, irretrievable loans? Up to a certain order of magnitude, the loss is borne by all payers and recipients of interest, since provision for probable losses is integrated in the interest rates. Really heavy losses must be covered out of the bank's reserves and capital, which largely come from previous gains; a further part is charged to the state or to co-operatives, as part owners of the bank, and thus it devolves upon the broad public. Only a minor re-

mainder is borne by non-public shareholders. The banks try to prevent losses from bad credits, and from crashes, by a common surety fund financed from their proceeds. In this way, credit money is fairly safe on the scale of the whole economy, but this safety does not extend to the individual debtor.

3. A credit-surety fund proposed

Therefore we propose here a credit-surety fund which should cover all or at least a large part of the risk connected with loans. Remember that a certain part of the risk is always covered by the assets which have been created through the loan, such as plant, goods, etc. If lender and borrower were to devote one percentage point of the interest rate to this purpose, the whole risk would be covered. Savings protection would be guaranteed by social reality. Most important, borrowers would be released from the problem of surety - although the usual, necessary scrutiny of credit-worthiness would have to be continued. Such a system would give new initiatives much more equal opportunities. Credit would really become personal credit, granted in recognition of the borrower's entrepreneurial capabilities.

It is unfortunate that the "alternative" banks have not taken up the chance offered by a common credit-surety fund; instead, they have allowed themselves to be pushed into line with the usage of heavy or even excess collateral for loans - barring themselves from fully utilizing their credit potential. Of course the fund's activity would have to be limited to producer credits. Such a fund would also affect the demands on the entrepreneur's own capital resources. In striving for full surety, and in view of the entrepreneur's wish for independence, these demands are grossly oversized today, binding immense amounts of capital. One can ask whether, under such circumstances, decisions about production credits should - or indeed can - remain solely in the hands of the banks' loan departments. Several answers seem possible, and should not be difficult to find for the professional. We will leave the question open, to avoid straying from the main line of the argument. Beyond the direct advantages of such a fund, we should remember how much work and psychological pressure would fall away from all concerned, liberating capabilities and forces of initiative. - As a matter of fact, the fund contribution of 1 per cent from creditor and debtor would probably come out much lower if the interest rates were freed of their present burden of default losses.

4. Interest and compound interest

The fact that interest must be paid for loans leaves hardly anyone indifferent, be it in a positive or in a negative sense. To some, interest is an indispensable means of motivation and incentive, to others, the root of all social evil. First, there is the burden on the debtor. How much easier would life be without rates to pay! But this could be said about all sorts of costs, and it says nothing about their justification. Interest on production credit actually does not come out of the debtor's pocket; it is paid by his customers, forming part of their consumption. If there is a general interest to be paid on all kinds of production finance, it will be included in the prices, raising the general price level but bringing no disadvantage to the individual. Much more problematic is the competition of credit capital with equity capital. Theoretically, the latter must also yield interest, but that can be waived as required. - While equality would be desirable here, this is not the case for the purpose of the credit. In the case of production credits, the interest can be devolved on the consumer, and a surplus is aimed for, out of which the interest can be taken. In the case of consumer credits, the interest is simply a burden deferred upon the future. Many critics base their arguments implicitly on the consumer credit, overlooking the fact that this is not really typical for a modern economy which is based on the division of labour.

However, there are many areas of life where loans are needed while no economic gain is generated. Examples could be the erection of a school building or of a home for the elderly. Such credits are not consumers credits like those considered so far, but with respect to interest, they are in the same category. One could imagine the waiving of interest for such purposes; in fact, interest subsidisation out of political motivation is quite common today.

The central point, however, is the justification of a work-free personal income accruing to the lender from the interest, making him a pensioner. The claim that receiving interest is unjustified owes its existence, at least in part, to the fact that the analysis starts from the possession of the money. In a healthy social process, money is received when goods or services are sold. The lender does not contribute work while the interest is coming in, but he has done his work, earning his money, before the loan was given. This work is the basis on which someone else can now unfold his activity. For this, and for the release from mutuality, the saver now receives part of what accrues from this activity. In the case of interest on loans given from savings, therefore, "bondage by interest" can not be invoked. Principal abolishment of interest would be justified only in cases of mutual lending, even though the mutuality could be staggered in time. - This case of interest on savings, however, must be distinguished from the case where interest on money invested is demanded on the basis of acquired rights, becoming in this way an annexation of profit.

The third problem area concerns national economy. Since the capital market is now being considered as a market of its own, or as a submarket, there is the difficulty of coordinating it with the actual market of goods and services. Thus, while interest rates of up to 20 per cent. may be justified by monetary policy, they are a catastrophe for the real economy. Interest per se is not the problem, but the level of interest and the way in which it is determined. - In this context, the practice of controlling money supply and credit volume via the interest rate appears more than dubious. That an overheated business climate is counteracted merely indirectly by indiscriminately raising the interest level, neglecting the purpose of loans, and by bulk control of loan-giving, just goes to show how little consciousness we have of social life. Instead of identifying the originator, we impose a collective shortage, trusting that the originator will be among those who suffer. We revert to the reasons of this practice later.

While one can agree with the principle of simple interest, one cannot do so with respect to compound interest. Interest on interest is an accelerating device which acts with the passage of time. There is the famous example of the one-cent-coin that was invested in the year 1 AD. in an account bearing 3 per cent interest. If the interest had been used up each year, the owners would have received a total of about 60 Cent* up to 1990. Leaving the interest in the account, the present balance would exceed the total amount of book money in today's world. Common sense tells us that this cannot be allowed - but common sense is powerless against the logic of accountancy and mathematics. Compound interest invests our concept of money with the character of independent value per se, of real goods, tangible products, entirely forgetting social reality. But money can never be more than what it stands for.

Compound interest does not worry the debtor who at the end of each year pays the interest due on the remainder of the loan. If the interest earnings were offered him anew, this would be a new loan. For the saver, the interest will depend on the demand for loans. With failing demand, the money must either revert to the circulation of purchasing money, or there will be the aforementioned throttling of circulation which must not be allowed by the economy. It is true that in calculation, compound interest can be carried forward as far as one likes, but in social reality it is bound to self-destruct where it exceeds the bounds of credit demand. After all, the interest does not come from the bank, it comes from the debtor.

It is like the story of the farmer who, fascinated by the proliferation of nature, decides to re-sow his whole crop. As long as he has unused land to sow, he really multiplies his harvest. Next year, he can re-sow the bigger harvest, and so on - until he reaches the limits of his

land. When there is no more land for him to sow, the surplus seed must be sold or given away, or left to the mice. In the same way, the proliferation of money by compound interest ends, in practice, where it meets the boundary of production.

5. Invisible piling-up of money

It stands to reason that money owners strive to overcome this boundary. Their best helpers are the banks, seeing that they have made the turnover of money into a business area of its own. What could they have earned from the miserable 60 Cent? If social reality limits the rank growth of money, further proliferation can only be achieved by opening “unreal” avenues. Let us shortly consider some examples.

1. The investment market today takes the top place. Huge gains in stock market values parallel the corresponding growth of savings volume. In West Germany, the total volume of savings rose from 111 milliards DM in 1962 to 1256 milliards (630 Euro) in 1982, including securities. (In the years since 1982 this growth has continued.¹¹) In all real markets, inflation is a source of grief, but when stock prices rise, there are smiles everywhere - even though substantially, seen from the side of the company, nothing has changed. The stock rise is considered as an increase of value, not an inflationary loss, for the sole reason that there is always hope that someone will come along who is willing to pay still more. A self-raising mass illusion that keeps renewing itself until it loses momentum. These growth processes create the illusion of interest earnings, which are entirely beyond comparison with the real economy because they are pure monetary fiction, without any regard to social processes. (This tendency was boosted by the dramatic expansion of derivatives since the nineties.)¹²

2. Somewhat less obvious is the piling-up of money when certain market sectors are turned into reservoirs for value storage, such as gold, diamonds, antiquities, stamps, coins, or - quite spectacularly in recent years - paintings. They appear to be “investments”, but they are not, because they move in the sphere of consumption, kindling any kind of production process.

3. Still more difficult to observe, but all the more effective, is the piling-up of money when it is invested in land property. Beside the above-mentioned types of investment, there is the particular fact that land is needed as a non-renewable, non-expandable means of production. In the stock market, we might remain calm onlookers under the motto “you brought this upon yourself”. Not so when land is made an object of investment: it can no longer be used in the social context unless the user pays rent to the owner. True, the owner will consider this rent as interest on the capital he invested. But that only explains his situation; it can not justify the fact that extra money must be paid for the use of something that the owner is not using himself and that by rights should be accessible to every human being. As for the borrower, the extra money does not enhance his potential when he is looking for land to site his enterprise; he now needs a higher loan, and having to shoulder a greater burden without additional benefit, he finds his potential decreased instead of enhanced. Nominally, his loan is for means of production, but effectively it is a credit for consumption.

4. One kind of circulation blockage that is particularly serious results from the fact that, through his surety, the lender acquires unlimited property rights in the enterprise. We are dealing, in essence, with production credit, and in this respect, it is not a question of blocking the social use of the money. But here the accumulation occurs ex post, not as rent but as capital yield. In this way the whole earning of the enterprise automatically becomes capital yield, which makes it the property of the owner(s). What should be social yield is not really

11 editor's comment.

12 editor's comment-

set free, but is piled up to increase existing capital property. The bigger the capital, the higher the yield. Decades ago millionaires were known by name and regarded with awe; today, billionaires. Owning title to property becomes power. And here the loop closes, back to the first kind of piling-up phenomenon.

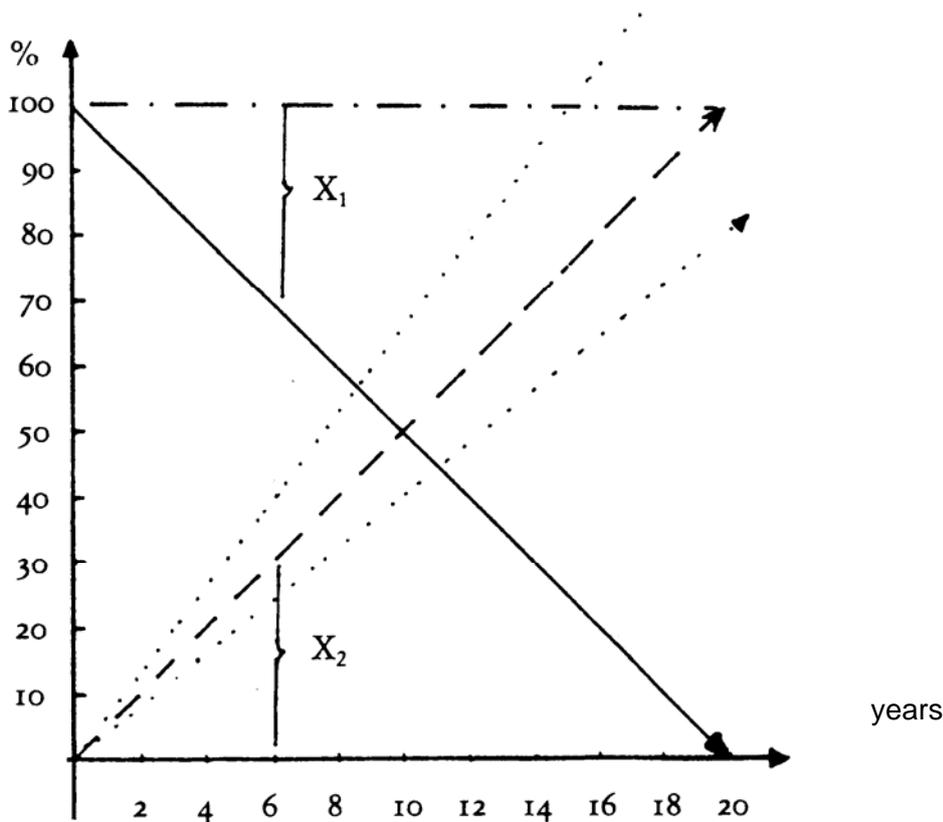
All these piling-up phenomena have one thing in common: they keep money employed, apparently "investing" it, but with respect to social processes theirs is a parasitic life: they contribute nothing to productivity, profiting from the contributions of others. This is possible because property rights are treated as commodities. But this is also the situation with respect to money.

6. Dynamically sustained monetary stability

In the sphere of credit money, we have two opposing tendencies. First:, credit money is built up by saving. This is a damming-up of monetary circulation with the purpose of transferring into the future a present claim to goods or services. The goal of saving is reached when this succeeds. In the area of natural goods, limits are set by perishability. Abstract money surmounts these limits in that it can be passed on to someone else who will use the presently available goods, with the objective and mandate of producing equivalent goods in the future. What the saver buys when the money finally comes back to him are newly produced goods and services. - The second tendency results from the use of savings for production credit. A surplus is generated, out of which interest can be paid. This process could also be described by saying that the original savings must disappear, being replaced by new money.

While the return flow of money through interest and repayment is functioning today, the disappearance of old money just does not take place. This is what generates the enormous and ever-increasing accumulations of money. Therefore, there must be not only an interest rate but also its negative counterpart, a rate of depreciation. This would limit the lifetime of old claims. For instance, assuming a repayment period of 20 years and a depreciation rate of 5 per cent, saved money that was merely deposited and not put to productive use would shrink to zero within 20 years. This shrinkage would fit the social reality, putting money on a par with real investments: they, too, are subject to loss of value by ageing. When, however, the money is used for productive investment credits so that something new is created, positive interest will accrue which will balance or even outweigh the depreciation. The level of interest depends on the productivity of the economy as a whole, and on its overall demand for credit. When little is needed, the interest rate would decline; if the demand were to rise, the interest rate would rise with it. A savings balance would then consist, at any given time, of a depreciated remainder and the newly accrued interest. In the neutral case of equilibrium, the saver would always have a constant balance, as was his declared intention. Clearly, the value of savings in a circulatory work-sharing economy* must depend on the condition of the social organism as a whole. In lean times, old claims must be affected along with everything else. This is the true meaning of work sharing: to learn that the well being of each individual is dependent on that of every other.

Consider the example shown in the figure:



Interaction of accumulation and depreciation, assumed duration of saving 20 years. Old claims are replaced by new ones. The value of money is sustained dynamically.

Text for figure on p. 201 of the 1997 edition

_____ *Effect of depreciation (negative interest), factor 5% (20 years)*

----- *Effect of positive interest, factor e.g. 5%*

..... *Effect of positive interest in a better or worse business climate*

----- *Balance of money saved: positive and negative interest on amount saved*

X *Example for neutral equilibrium: after 6 years, the original account has been increased by 30% (x_2) and decreased by 30% (x_1). $x_1 = x_2$*

With a 5 per cent depreciation rate, 5 per cent of all savings are set free each year, without harm to the saver (except in the case of a general downswing harming everyone). The amounts reactivated - corresponding to the repayment rates of the debtor enterprises - are now available for consumption within that branch of the social organism which is not directly productive in the economic sense: the area of free cultural life. How this purchasing money is allocated, and by whom, need not be determined here - we do not want to fetter the imagination of those who would bring such a venture into reality. This purchasing money is necessary, because the production credits generate additional goods for which additional money supply or buying power must be made available. Theodor Beltle has drawn attention to this

problem in his book *“The Crisis - Consequences of an Error in Classical Thinking about Saving.”*¹³ Concerning the real connection between economy and free cultural life, we note that the amounts flowing into cultural life through the mechanism of depreciation (negative interest) come from a period in the past whose productivity had to be nourished by the creativity of the spiritual and intellectual life of that period.

In a recessive economy, the interest level would fall, but the flow of depreciation money will continue for a time at its earlier, higher level; at the same time, saving will diminish, and this will raise the demand for credit. Both these factors will counteract the recession.

Problems do arise, of course, on the technical side. How to determine the present age of money? One possible solution might be, for instance, to make dated savings certificates obligatory. It could be argued that times of falling depreciation would encourage people to hoard their money at home; here, too, different solutions can be found. The consequences of such regulations - in particular, in combination with the proposed credit-surety fund - would easily allow an interest rate above the depreciation rate to be achieved. Banking practice would change as well: the interest rate would stabilize and access to credit would become easy, doing away with the necessity of capitalization via the stock market. In short, the interested reader, investing some thought, will find a host of relations and possibilities opening up. Accumulated money would be brought back into circulation, alleviating the urge for interest-bearing investment. A number of escape routes into hidden, invisible accumulation processes have been discussed above. They would have to be closed by legislation. This requirement arises not only out of the monetary economy itself, but is also supported by a number of other reasons such as the principle that land is not a saleable commodity, or by increasing employee co-ownership of businesses.

Creation of credit and book money

Up to this point, we have been looking at savings turning into credit money. But another form of credit alimentation has developed within the banking industry, which is not connected to conscious processes of saving. In the literature, it is called creation of credit money and book money; it has become more and more important owing to the growth of cash-less money transfer. On the one hand, this process is fanned by the central banks. In their monetary policy, they have a number of instruments with which they can feed new money to the commercial banks, generating liquidity which enables the commercial banks on their part to grant credits. These are always repayable. As long as the liquidity goes into production credits, the new money is soon backed by the production of goods. A problematic aspect is presented by public financing. While formally considered as credit, public expenditures often serve purposes of consumption. This is the classical case of generating inflation by increasing the money supply without a corresponding supply of goods - even though the consequences may become visible only in the long run.

But the commercial banks have developed new ways of their own as well. While in theory, they should grant credits only up to the amount of the savings deposited with them, experience shows a different state of things. To a large extent, credited money flows right back to the bank, especially where a bank dominates its region. With current (giro) accounts, too, most of the money remains within its own circuit. The fraction of real outflow is limited by the required cash reserve. In the long run, experience in the banking industry shows that these fractions stabilise. Apart from this empirical value, the German central Bank (Bundesbank) requires a minimum reserve as a similar, albeit artificial instrument. (So does the European Central Bank [ECB].)¹⁴ Thus it becomes possible for a bank to extend its loan volume up to

13 Theodor Beltle, cf. note 8.

14 editors comment.

the reciprocal value of the reserve fraction, unnoticed by the individual account owner. Basically, this practice makes use of the intervals in the circulation of the money, similar to computer multitasking where several programmes can work “simultaneously” because any pause in a programme is immediately occupied and used by another programme. Thus the mechanism of creating credit money is based entirely on people’s monetary habits (for instance, tenants generally pay their rents on the first of each month). Cash transactions tend to be replaced by cashless transfer, and if everyone used the same bank, the reserve fraction would tend towards zero, letting the credit ratio tend towards infinity. Thus it becomes quite clear that the granting of credits can no longer be limited by tradition and habit: the question takes an entirely new form, comparable to the earlier process of purchasing money ridding itself of its commodity character. We want reason to take the place of nature or instinctive habit, and this would become possible in an associative economy, both in the formative and socio-regulative sense.

An important aspect is that loans out of credit money created in these ways no longer need a backing in the form of previous savings. Instead, they must be covered *ex post* by the social organism as a whole. This is justifiable only for production credit, and actually only for that part which appears as current assets or as short-term investment in the debtor’s business. Such short-term credits are entirely justified, similar to a 90 days’ draft that will be discounted by the central bank under certain conditions.

Strictly speaking, we ought to distinguish between two types of purpose also in the case of production credit. Long-term investments ought to be financed out of long-term savings, while working credits may be *created* within the bank’s business. If long term investments are financed by credit creation there can be a strong and long-term inflationary trend, because the compensatory production is realised too late.

Gift Money

1. *The social function of gift money*

We have noted stoppages in the circulation of both purchasing money and credit money. In the case of purchasing money, the resulting pile-ups are dissolved by liquidating savings or by transposition into the adjacent area of lending. When money is renewing itself continuously, as in the case of dynamic stability, former purchasing money is continuously being freed to finance social processes that are not economically oriented. Purchasing money becomes gift money.

But piling-up also occurs in the area of credit money, and it has many forms. This is because money generated by production processes does not really become free, but tends towards re-investment, or towards formation of reserves. During phases of economic build-up, this may be necessary. The pile-up is caused, in particular, by the failure of the social system to provide security for enterprises. In a competition-oriented economy, help can not be expected from other companies. As the individual saves to ensure social security in the face of an uncertain future, so does the enterprise when it retains its profits, re-investing them in its own business. How much is enough? In a society where struggle for survival is the norm, nothing is ever enough. To stop growing means to be the loser of tomorrow. As long as any competitors are left, there is scope for further growth. National economic considerations are of no interest for the balance sheet of the individual company.

Yet the example of the farmer sowing all his harvest makes it obvious that beyond a certain point, money must not, and indeed can not be funnelled back into the sphere of interest-

bearing credit, because meaningful credit demand is exhausted. Neither is the consumption of profit by those active in the economy a sustainable solution by itself. Actual dissolution of the accumulation comes about only when money that has grown old in the service of the economy flows into an area which is free from economic production. The sphere of gift money, of donations, is just that. With respect to the present time, it is outside economic production; its very essence is to be “unproductive”. The recipients of gift money are going to spend it on consumption, thereby returning it into the sphere of purchasing money, but what they produce with the help of this money can not really be counted among economic values or commodities.

Our work-sharing system of economy has long since spread beyond national borders; “National Economy” is no longer a relevant expression, since export has made the whole world its market. Surplus productivity is funnelled off by export. A positive export balance is actually problematic, because it shows that markets are mostly sought for the sale of products, less so for enabling new productions, which would push their way back in through imports. But economic life is based on mutuality and can not tolerate such one-sided market relations. Yet one-sided receiving markets are ardently being sought. They can be found legitimately] not outside the social community, but only within, by developing the sphere of donations.

Economists will find it strange to put donations into an economic context; the concept seems to signify the very opposite. But the conditions of economy actually enforce donations. “Forced donations” occur all the time, be it in cases of bankruptcy or in connection with the debt crisis in the third world. In those cases, the intention of donation is absent at the outset, but it comes about through the need to write off losses due to failure of economic ventures. A donation *ex post* is a donation only in form since the free use of the gift will never materialize. Real donations are *ex ante*, opening up completely new uses and possibilities. - A separate kind of forced donation is inflation. It too „dissolves“ money, acting not only on accumulated money nor only in its own specific monetary sphere, but also through rising prices and sinking incomes it affects both loan-and purchasing money, creating chaos by decimating buying power.

Up to now we have not stated what happens in the area of gift money, primarily because this is not a question of economy. The economy perceives cultural-spiritual life merely as something that consumes resources. However, this consumption merely forms the organic basis of cultural life and has nothing to do with its contents. As mentioned at the beginning, our way of computing the social product disguises this by simply counting intellectual achievements as (payable) “services”. In this light, the wages of a worker and the salary of a teacher are considered to be of the same kind, and are added together. Consequently, production companies and schools are considered equal in kind and in value, while in reality, the one produces economic goods, the other consumes them.

Often the argument is brought to bear that a teacher also produces something for which there is a demand; therefore the distinction between economic and cultural life is held to be unjustified. But this line of reasoning neglects the basic difference: in the economy, consumable goods are the goal; in cultural-spiritual life, goods are merely the basis of sustenance. To visualize the difference: one can easily imagine that all working people produce consumable goods, but hardly that they all were teachers - what would they live on? To enable a person to be a teacher, he must be freed from production. This depends on the availability of gift money.

The economy can only remove the necessity for production, providing “free time”. This free time can either be used by those in the economic sphere, in the form of shorter work hours, or it can be transferred to persons outside this sphere who, as scientists, artists, teachers, etc. make contributions to cultural-spiritual life for which there is a demand. The transfer occurs through money, either in the form of gifts or as “payment” for cultural services.

Characterising free spiritual life as “unproductive”, as “mere consumption” is only permissible in the context of the social organism as it develops through the ages. Taken separately, these characteristics drift towards “wage costs” or “parasitism”, finally arriving at the cynicism: “Who does not work, shall not eat”. Reality requires us to look at the economics of our age. Looking back to the past or forward into the future, we get a different picture. The explosion of production and productivity during the last 200 years is not due to an improved capability for physical work - we have actually lost many craft skills - but to the human mind, especially to the flourishing of technology as a fruit of human intelligence. The cultural life of the past has made enormous contributions to our present economy. And in the same way, present cultural life will be the basis of future prosperity. Many parents try to provide wealth for their children. Since this is in the form of purchasing money, the children become consumers, no more. Those parents who instead strive to give their children a “good education” are aware of that. Therefore it is often said that “education is the best investment”. In the ultimate perspective, education must be the true goal of all cultural-spiritual life.

While free cultural life is labouring under constant financial difficulty, its relative - “semi-free” cultural life - is rolling in money. This is the area where the human mind actively takes part in economic life: inventing, organizing, rationalizing, directing, and speculating. Out of the revenue from the activity, the mind-worker receives a share of purchasing money or - in the context of intellectual property rights - royalties or an annuity. Free gift money only becomes necessary where the direct relation of the intellectual activity to a certain result vanishes. For our future development, everything depends on the possibility of free cultural-spiritual life. For only with free spiritual life can we hope to harness economic life and secure its proper function: serving the development of individuality.

2. State and Individual

Up to the emergence of democratic rights for everyone, society’s interests dominated over those of the individual. As the majority principle was extended indiscriminately to all areas of life, the sphere of political life inflated in an absolutistic manner. Instead of self-governance of individuals relying on their initiative and on association, majority censorship came into force: the right of existence of an impulse depends on the majority vote. Political majority becomes more important than the cause. Freedom of initiative is reduced to the freedom to canvass for a majority.

This universal jurisdiction of politics - albeit differently fashioned in different countries - pertains to both economy and cultural life. Under the motto “Who pays decides”, our economy gains more and more influence upon politics, in the roles of employer, tax payer and creator of affluence - perhaps not even due to direct interventions but because consideration of the well-being of the economy has become a necessity. Politics has largely become economic politics. Under the same motto, however, politics has usurped control of the cultural life. Basically, there are two ways of making services available to people, irrespective of their social status: give them more income, or make the services cheap or free of charge. Raising the general level of income leaves people free; one can not be sure for what purposes the money is going to be spent (although earmarking is possible in certain ways). This way presupposes a demand among the income earners. In our age, a spiritual and cultural life worthy of its name must be founded on the individual’s needs. But the way chosen is predominantly the second one. However, culture free of charge (or at subsidized price) blurs the needs until the sphere of culture itself becomes endangered. The illusion “free of charge” is created, but no one should be surprised when the users of these free-of-charge facilities complain about the level of their taxes, out of which the apparently non-existent costs have to be financed. Much more serious, however, is the fact that as the state finances cultural and spiritual work, it unavoidably assumes influence over it. What should be supported? Where? To what extent? Unless the choice is everything or nothing, selection criteria become necessary. “De-

generate Art" was denounced and forbidden - such things are conceivable only under state-dominated cultural politics. Similarly, the curricula of public education, the selection of teachers, etc. become subject to state influence. There are many examples of such strong, all-pervading influence of public authority in all areas of life. Ancient Egypt is a prominent case. The Pharaoh and his priests were initiates; their power rested on their deeper knowledge of the mysteries of the world. The power of office remains to this day; the mystery schooling and initiation, hidden from the profane public, have been replaced by the laborious climb of the party career; the knowledge of the mysteries has given way to the "top secret" of the most recent opinion polls. In the face of this, releasing the cultural and spiritual life from state management is the only fitting consequence of today's constitutive maturity of the individual. - Some may worry about a wee sprout of a cultural project being deprived of the administrative protection that caringly fostered it in a world of state subsidies. Open and free competition is the only possible way in the sphere of spiritual life. Paradoxically, this is being demanded and practiced in the field of economy, which should be founded on fraternal solidarity - arguing that competition is the only way to achieve technical progress. Do the advocates of state-managed spiritual life then intend to block human progress?

The time contour¹⁵ of money

The threefolding of money into purchasing money, credit money and gift money is not, in its essence, an "invention" of Rudolf Steiner - it is his "discovery", originating from the essential circumstances of circulation in a work-sharing threefold social organism. The three kinds of money follow each other in time as steps in the unfolding of the essence of money. Further development then occurs by processes of accumulation and dissolution within the general circulation of values. On the level of purchasing money, saving is the accumulation process; dissolution can occur by liquidating savings, by gifts, and - this is the transformation that is appropriate to present development - by lending in the form of credit. All the time, capabilities entrepreneurial, inventive and organisational are being called into action. This produces a huge surplus, which is continually trying to find its way back into various forms of accumulation, e.g. as investments (true or apparent), or to return to purchasing money (in correct or incorrect fashion). Appropriate ways of re-formation or dissolution of accumulations are price reductions (equivalent to wage raises for the community) or the passing on of profits. In the area of gifts, economy reaches the boundaries of its possibilities. Here, the accumulation of money is neutralized by the fact that the activities financed by the gift have no economic value; their value lies in the cultural-spiritual sphere, while with regard to economics, they appear only as consumers. The "education" of the human mind is a fruit of economic activity on the one hand, and a seed on the other. Passing through a non-economic phase of spiritual life, a former monetary process comes to its end, and re-entering the sphere of purchasing money, a new process begins.

Ever since money lost its commodity value, it has been clear that every monetary process must correspond to a process involving values in the social sphere. In the case of purchasing money, the values in question are obviously products, goods that have been produced and brought to sale. The word "product" already points to the production factors of national economy: Land, Labour and Capital. Rudolf Steiner called them Nature, Work and Spirit. In fact, there is always joint action of all three, although two polarizing centres of gravity can be discerned. One pole is situated where labour acts upon nature, changing it into products: (NL). Here, value is created immediately in the form of products; the more work is invested, the higher the value (if the work raises the quality). Agriculture and crafts have their place here. Thus purchasing money has a special relation to this kind of value-building.

15 in German „Zeitgestalt“ (editors note)

Spiritual guidance is involved in every kind of work, either by instinct or intentionally. In his mind, man can distance himself from the connection of nature and work and reassemble it in a new way, organized, rationalized etc. The intervention of his mind can also lie in a completely new application of work, or in the invention, production and application of technical "production tools". In every case, an economic calculation ensures that increased value will result - but remarkably, this pertains to a reduction of the contribution of work. The value of a rationalization consists of the potential production value of the work saved, i.e. an increase in productivity. This is the opposite pole where the mind acts on labour (LM); it saves, while NL increases the cost. It is wholly within the sphere of credit money, but it works back into that of purchasing money. Thus the value of a product is approached from two sides. Finding the equilibrium between the two tendencies also answers the question of the relative contributions of work and mind, which determines the division of the joint proceeds. The mind, as it acts in the field of economics, is bound to this field; it appears only half-free. In return, it is required to produce the increased value out of which it will ultimately get its compensation. (The possibility of excess appropriation out of the proceeds, which can arise through the structures of ownership and law, has already been mentioned.)

What about gift money? What kind of value building corresponds to this? Not the abilities and skills, but the person who is their bearer stands in the centre of free spiritual life. Here, too, labour must be saved - but in a different way. The activity of the teacher does not save work - at least not in the short-term; others, parents or all citizens, must release him from producing, saving up work-time for him to teach. This necessary saving process brings spiritual values into a real relation to economic values, irrespective of their essential dissimilarity. In the value LM which pertains to credit money, the restraining action of mind working on reality becomes visible; in value produced in the area of gift money, the intellectual activity brings itself into appearance. That others must save up its work equivalent is due to the fact that one cannot at the same time produce economic goods and spiritual values. How much is saved up for spiritual life depends on the intensity of the need for spiritual values, and on the degree to which the spiritual impulses that manifest themselves fit that need, enabling them to displace other consumer interests. Spiritual life no longer has a claim to social existence; this is one of the most important consequences of man's freedom.

Lustily using our powers, we easily forget the where from and where to. Until recently, nature appeared to be a free gift of the gods, ever productive - we could just use it. Meanwhile we have come to know that this does not work in the long run; if we want to continue using nature sustainably, we must care for her, even at large expense to our economy. The same is true for mankind's spiritual and intellectual life. Every generation lives on the fruits of past spiritual life. We absorb them through culture and education, so that we are inclined to think of everything produced and governed by our spiritual and mental activity as our own product, claiming for ourselves all profits accruing from it. But here again, we have a one-sided claiming and taking. To allow the future to unfold, we must therefore not only look to environmental conservation and restoration: above everything else, we must engage in cultivating a really free spiritual life in our present day. This is what can nourish future generations.

Thus we find that money shows a rhythmically evolving time contour ("Zeit-Gestalt") in the social organism. A central question then arises: is this a purely mental process (gift money is always old money, etc.), or should this time-process become manifest in the money itself, for instance by marking an expiry date or other such means. From the beginning, it must be understood that of course the behaviour of the individual is not subjected to any regulation.

My own actions - whether saving, borrowing, lending, or giving donations - depend on my personal circumstances. What money does as a whole, however, must become objectively visible in the money itself. This difference between the view of the individual and the interests of the whole has been pointed out repeatedly. Another objection says that any measures appearing in the money itself would concern only its outward appearance, not the underlying

social processes. Money is a bearer document, and any changes of the legal claims associated with it can only be expressed by changes in the document (losing a bank note means losing the claim, not only the document). But aside from this, the objection confuses cause with effect. Changes concerning money must occur because the social reality changes, not the other way round. So the question we are left with is “How?”, not “Yes or No?”. A further objection concerns the increasing use of book money. Why argue over bank notes, seeing that they will soon disappear? Such a view rests on too narrow an understanding of money. For the outward appearance of money does not matter; it is merely a matter of design. And today’s electronic technology would definitely make changes such as the flagging of expiry dates easier, not more difficult.

How can the changing time-contour of money, its ageing, find adequate expression in reality? Not in the fact that the value of purchasing money is continually eroded; this has already been made clear. As long as it is kept in circulation, there is, however, no real reason for it to age. - In our day, money enters the social organism only through the portal of credit. Value-eroding and simultaneous value-building activities (LM) start a time-limited process of re-formation, which calls forth the necessity of “ageing” by “rejuvenating” the production process. Credit terms determine the average age of money. In the case of dynamic stability it has been shown above how it can be arranged that the creditors’ claims can never exceed the social counter-values. A possible solution was suggested in the form of letters of credit, which have fixed terms already today. While presently, letters of credit have individual expiry terms; standardised terms would be preferable, since at the end, equality with cash must be ensured. Date-marking bank notes would ensure consciousness for the real terms of validity, but it would be activated, in the case of purchasing money, only on the day of exchange, and only for hoarded money that has been saved but not turned into credit. Again some readers will wince at this “confiscatory” concept, but this is because in the eyes of most, money still has the aura of a non-perishable commodity.

We will not, at this point, enter upon the various other measures that would be necessary for ensuring social fairness and which of course would have considerable effects, such as the non-saleability of land and other productive assets, the revision of inheritance codes, the shift of taxation from income to consumption, etc.

The administration of money

Money must have a relation to the values generated and circulated within the social organism. Thus the turnover of money is a global accounting of mutually exchanged output. All values listed in that accountancy must be verifiable in social life, if they are not, the accounts must be corrected.

In this light, the banks appear as the accountants of the social organism. Every entrepreneur will hold a well-organised and sound accountancy in the highest esteem. But unless the company has already become totally addicted to profit, no entrepreneur will think of leaving the truly entrepreneurial decisions to his accountant. On the scale of the national economy, however, this is happening all the time. Bankers decide about credits, about money supply and business climate. Central banks and commercial banks alike - in the final analysis, the well being of the social organism depends on them. In the best case, persons from productive business are put on the bank’s advisory board to provide deeper insights into reality. - This is not just coincidence. Abstract money, all-pervading world liquidity, in the form of codified law, is especially prone to influences of the power factors which continue to operate in our public structures under the standard of democratic legality. Only money can steer the course of social life by abstract means. A number of monetary instruments have been developed over time to ensure this.

But any action exerted via money can only produce general effects, not surpassing the level of people's minds. Signals can be given of caution or encouragement, as the case may be. The inadequacy of such procedures in practice has long been obvious. Overheating or slumps of trade cycles are caused more and more often by interest fluctuations. And the bigger the pile-up of circulation, the more difficult its dissolution, the greater its sensitivity to rumours of any kind.

Where then are the "entrepreneurs of national economy" who could relegate the banks to their role of bookkeeping? There are none. National and international bodies deal with partial aspects, but they often answer to interests no less foreign to the socio-economic sphere than the banks'. Bodies fulfilling the function of "macro economy entrepreneurs" have yet to be formed, following the principles of associative economy outlined in the beginning of this book. An essential characteristic is that they not merely unite a sector of the market, in the way of a cartel; instead, they integrate the whole economic process from demand via production and circulation back to the consumer, creating the conditions necessary for conscious social behaviour. What today is decided exclusively by the banks must become the province of associations. Since they represent the whole of social life, the mass psychology tool kit for influencing people's behaviour in accordance with abstract decisions will no longer be needed. As has been shown, it is no longer necessary to determine the money supply externally; the portal of credit will control it. Credit decisions would be an essential task of the associations. (Incidentally, this is in partial agreement, technically, with the view of many monetarists who discourage a conscious control of money supply, preferring self-regulation via the credit demand.) Re-dimensioning the banking industry is urgently necessary to avoid the dominance of mere monetary thinking over social considerations; it will only become possible when associative movements are formed on a large scale. - Of course, associative cooperation does not grant dominating power; it only ensures such influence as corresponds to one's own contribution to the social process. Disempowerment of money can not be enforced politically, it can be brought into reality only by positive commitment for the associative form as the future of the economy. Otherwise, in combating the power of money one risks to fall prey to the very illusion to which this power owes its influence. Solving the problem of money is therefore no longer a matter of a new monetary theory: the unleashed forces of money can be controlled only by creating a real social organism. Rudolf Steiner called this task the "taming of money."

Reason versus interest

An overview of monetary matters such as the above is open to misunderstandings at many points. It will easily be understood that in a publication like the present, a thorough discussion of scientific monetary theories is not possible; neither could the suggested changes be explicated in every detail. The central difficulty concerns the concept that money should diminish under certain circumstances, while today we expect it to grow and grow. On the one hand, this shows how deeply we are trapped in the illusion of money as an incorruptible value. On the other hand, it illustrates how difficult it is to re-educate our feelings even under the dictate of reason. Third, we discover here a basic problem of social considerations: we ourselves are completely enmeshed in the social processes. Whatever measures are considered, they will affect me. How difficult it is to speak about land property if one is a property owner; how difficult to speak about shares as a shareholder making a profit; about fair wages and prices when enjoying an exorbitant income, and about money when one has enough of it. Instinctive anxiety immediately raises its head, invisibly robbing reason of its certainty. - In addition, there may be those who loudly spur on the inexperienced saver: "Here is someone who wants to take away what is yours." Let us state again: Money must be able to shrink under certain circumstances, as shown above. If this is not ensured in a deliberate, organic way, it

is bound to happen under chaotic circumstances. The erosion of money's value though inflation is no longer perceived because we are so used to it, and huge losses are caused by defaulting credits: both processes are enforced by the monetary bookkeeping system of our economy. Increasing social tensions between poor and rich, on the national and the international scale, are unavoidable corollaries of untamed monetary processes.

Many people feel that things are bound to change. Usually in that connection one thinks of others. But whoever is not prepared to objectively examine himself and his own circumstances, will be talking change while causing ossification. However, doctoring some singular symptom, which is particularly irritating to me is not enough. The whole of the socio-economical process must be radically re-thought and re-shaped.

What can one do practically?

Even those who affirm the direction of the thoughts developed in the preceding considerations will soon have to face the question, how such changes in the social organism are to come about. Haven't the social roles been distributed long ago and the structures become hardened? Doesn't everyone defend their own interests, the power and the organisational influence, which they have gained socially? Who would have an interest in a fundamental change? Because everything stated here requires looking at the whole social-organic process to determine from there one's own position anew. But who is ready for that? And an individual on his own can achieve nothing anyway! – Thus, because the will for change withdraws in resignation to dealing only with one's own affairs, necessary insights become unrealisable utopias.

But maybe we are just having misconceptions here. There are more than a few people with the following life experience: You enter a new social context, e.g. a company open and fresh. You are still at the bottom of the social ladder, have no influence and no responsibility, but are quite aware of social abuses and misconduct. You would have to be at the top, then you would do everything completely differently! Now however, now you can still do nothing. - After years or decades you finally arrive up there. Now you have the influence and the responsibility to do what seemed so necessary before. But now the problem reverses: What is the use of the bosses will, if no one participates? Because social behavior cannot be decreed and instructed. This type of experience seems to show that in the social field nothing can be changed. And yet this is nevertheless a wrong judgement. Because it results from the fact that you always look where your own will activity does not reach. The necessary initiative or your own is replaced by the demand on others or on society.

The further development of social conditions will provide for the opportunities on larger societal scale. Because in the long run one cannot contravene the internal life laws of the modern social organism without resulting ill health. And the list of symptoms is getting longer every day; the days of "keep up the good work" are counted. - The body is not simply accepting diseases, it counters them with healing powers instead. The meaning of illness is to be found in the development of these healing forces. - Also in the social field these forces must be developed during, and through, the illness itself. However as the social conditions, are caused by us, it is our insight into the life laws of the social organism, which is the first necessary condition, and also the beginning of any change.

Once these insights are gained it is possible to find the steps to act accordingly. Buying consciously, asking where the money is being invested, etc., already activates the next stage of change, because the mature individual will not first of all ask what others are doing, but carries the responsibility of his own insights. Constant engagement in what one holds right and timely, is the attitude out of which we repeatedly renew our human dignity. Such behavior works in social life as a focal point for new structures. We must not worry about being looked at, in the beginning, as an outsider, a "weirdo" compared to the so-called normal behaviour.

The areas mentioned in this book are also already in motion. In the field of money there is the development of "social investment". Investors want their money invested for such purposes, which are considered socially meaningful. Some even partially sacrifice their interest if the money is alternatively invested. Some bank initiatives go even one step further and put social renewal as their central task. Especially the so-called Bochum banking initiatives (GLS Gemeinschaftsbank, GLS Treuhand) founded and operated by anthroposophists, have developed many new forms of handling money in the area of donating and lending, which in many respects have become a model for alternative banks. This movement is now spreading

worldwide. Building societies also show in part how, through solidarity, a decoupling from the market interest rate can be achieved, just as the WIR-Ring, which has spread widely particularly in Switzerland. A new type of economic funding, including the security question however, is still barely accomplished. Also a fundamental discussion of the money issue as a whole is still lacking, both practically as well as theoretically.

In relation to human labour and the company's ownership there are also new questions today. For one, there are more and more companies that offer their employees participation in the profits. A large proportion of these are united in the „Arbeitsgemeinschaft Partnerschaft“ (AGP), a working group partnership. Although often still in a somewhat unclear way, the tendency shows a growing understanding of wages as a sharing of the total revenue generated. In other areas such as agriculture, we are facing a situation where we have to decouple the wages from the revenues (direct payments) because the market doesn't secure their regulation. The continuous rationalisation trend with the loss of jobs raises the question, whether the scheme: work = income is still viable. - In addition to these large general trends, there are countless practical attempts, especially in smaller companies, to redefine the legal- and the wage relationships. Also in the question of property there are many attempts e.g. through donations, to neutralize the property claim of owners. - Unfortunately this development is strongly overshadowed by the consequences of socialism. Because for many people the alternative to property claim on means of production is always associated with the socialist-style collectivism.

A strange discrepancy exists in the land issue. On the one hand the consequences of the present land law are socially almost intolerable, on the other hand, there is in Germany no political discussion on the subject. In practice it is mainly a set of land endowments and land funds, whose objectives are no longer primarily maximum capital returns. In Stuttgart a real estate project, in the form of a limited liability company, has been founded as a business association whose objective is to remove land and property from the sales market make them available to the actual users. Increases in value are used to finance new projects.

The most difficult thing is the implementation of associative economy because one has to move beyond the sphere of influence of the individual enterprise. In the idealistic remainders of the cooperative movements some aspects of this effort can still be found. In more recent times there are some producer-consumer cooperatives which practice associative interaction between farmers and consumers. The group „Aktion Dritter Weg“ (A3W) (action third way) has added to their internal working conditions, the financial adjustment between enterprises of the economic life and those of the cultural life a principal purpose. -1986 a group called “Verbund Freie Unternehmensinitiativen - Gesellschaft zur Förderung partnerschaftlichen Wirtschaftens mbH & Co KG” (Free enterprise initiatives - Society to promote economic partnership ltd. & CO kg) was founded in Stuttgart in which more than 30 enterprises cooperated. On the basis of self-administration, forms of collaboration from consultation to financing were sought and practiced at all levels. Apart from this more horizontal connection and commitment the vertical connection from the manufacturer to the consumer has also to be developed. With each joining enterprise new tasks, but also new solutions, will become visible. Thus by co-operation in solidarity new bases for a co-operation with the banks and capital investors can be created, e.g. security questions can be solved completely differently.

All these approaches to practical changes of social conditions show that there is no reason to withdraw in resignation. Beginning small, humbly unnoticed should not hinder anyone. One needs to be courageous though, as fear cannot overcome the prevailing conditions, but rather becomes even more tangled up in them. Whoever wants to advocate new renewing processes must learn to swim against the tide. This seems difficult at first but it is strengthening.

Addendum

Who owns the Earth? The Question of Modern Land Reform (Theses)

1. The system of land legislation, i.e. the canon of rules for the utilisation of land, is a fundamental feature of every society. However, it is also an expression of the society's self-perception. The emergence of modern concepts of state, with the break-up of traditional social hierarchies, and the advent of a globalised world order make a new look at land legislation mandatory. Otherwise serious injustices and damages will result, of the kind which we are already facing today in numerous instances.

2. Land forms the basis of the whole of any society. Thus the necessary allocation of land utilisation must benefit all individuals within the society. Since land, with few exceptions, is not a producible commodity, it cannot be put on sale in a market. Selling land means privatising that part of the ground rent which should actually be socialized. Turning the factors of production into saleable commodities is a serious and fundamental mistake of our economic system. In this regard, labour and capital are similarly problematic, though for different reasons.

3. The land always belongs to everyone, though it can be utilised only by individuals. Thus individual "ownership" of land can only refer to the right of utilisation. As long as this individual utilisation continues unchanged, there is no need for societal action. Society only has to ensure that a new user can step into the rights of the previous utiliser when he quits. In such a system, the right to land utilisation would change hands only by assignment, not by sale. In this way, land "ownership" would be brought back into circulation within the social system. Society would not manage the land; it would only ensure that it is available to (suitable) individuals for utilisation, and that such utilisation is not made impossible by prohibitive sales prices.

4. Instead of a sales price paid to the pre-possessor, society could impose a social compensation payment for the ongoing utilisation of the land. This is justified because the use of land by one individual excludes everyone else from using the same plot. The communal income accruing from the compensation payments would be used to the benefit of all people in the respective region, or part of the world. Such compensation payments do not constitute interest on capital, since no sale, and thus no capital transfer, has taken place. Their level would not be determined by supply and demand, but by social considerations. For instance, society can adjust the level so as to further ecological agriculture or other societal goals.

5. A land reform of this kind would have enormous consequences for the conditions of social life, from housing to regional and town planning, and finally to the agricultural system. Even more serious would be the effects on prices and incomes if the manner of land utilisation were thus to be brought back to a state of stable health. The capital, which is presently tied up in land property, would be set free for other, useful purposes.

6. Large parts of the world are presently being forced to reorganise their social systems, adapting them to the conditions of globalisation. It would not be necessary to plunge these regions into the same problems of land speculation which other parts of the world have gone through - possibly in even more acute forms. In the rich countries, long-established social rights and public welfare alleviate the problems arising from land legislation. Countries that

are still developing have not had the time to establish such safeguards; consequently, they lack the corrective forces that make the adverse effects of outdated forms of land legislation tolerable in our part of the world.

Our Responsibility for Our Resources (Theses)

1. Since time immemorial, the resources of our world seemed inexhaustible. Again and again, new discoveries and inventions seemed to make serious concern unnecessary. This euphoria is now gone. We have become conscious of the limitations of our resources. Care and husbandry are indicated. A more sophisticated concept is sustainability, based on self-renewal and circulation of resources.

2. Land legislation has a greater impact on resource management than is generally realised. It is not only the direct effects mentioned in the theses of the first Building Block that are of concern. Directly or indirectly, property legislation influences a lot more: the right to mineral resources in the ground; preferred types of agricultural utilisation; the management and care of water supply and atmospheric pollution. Those are also the points of origin of the strongest opposition to reforms. The problem is aggravated by WTO's claim to deregulate land property transactions everywhere.

3. A special problem is posed by mineral resources below the sea outside national territories, which so far have been exempt from sovereignty. The extension of territorial limits to 200 miles was a first coup against the chances of making those resources available to all mankind. Contention for territorial rights to islands and bases such as the Falklands, the Aegean, Morocco etc., which at first sight appears politically senseless, often concerns sub-oceanic mineral or oil deposits. Reversing this aberration would constitute a movement towards a constructive type of globalisation that would not imply real loss of sovereignty, only abstention from an expansion of power spheres - an important step toward building confidence.

4. In agriculture, promotion of ecological ("bio") cultivation methods is the foremost goal - being the closest we can get to real sustainability. In our countries, the percentage of ecological methods being used is steadily increasing, although it has yet to reach the 10 per cent level. But in the end, ecological methods will survive only if the price structure allows. Reacting to the change from traditional into area-proportional subsidies in the developed economies (without regard to ecological aspects), the developing countries now ask for the total abolishment of agricultural subsidies. This brings out a second problem in agriculture: that indeed we must learn to sustain regional equilibrium everywhere. Agriculture is tied to immobile land, and that puts regional limits to its markets. It would be absurd if globalisation, in striving for trade and technical equalisation, were to destroy the agricultural part of the economy in our countries. Ecology is not the only reform we need in our agricultural sector: we also need a new type of economy.

5. With regard to materials, today's watchwords are economy of use, abstention, re-usability and substitution. Water and air take a special place because everybody needs them absolutely. In the long run, a globalised economy should also strive for equilibrium of goods transfers since the place of consumption increasingly does not coincide with the place of production. Low prices for raw materials and low transport costs lead to an unnecessary acceleration of consumption. Ecological taxation would be a remedy. In order to 'shape' globalisation, such taxes would have to be earmarked for global (supranational) efforts, to ensure that they are not misappropriated for the internal financing of individual states.

6. Resource consumption is determined, to an important part, by the technology available to the civilisation that does the consuming. If we want to avoid that societies developing in our wake wreak damage similar to what we have done, we must enable them to start at our present technological level. Thus our goal in dealing with developing countries should not be maximum competitive advantage, but ensuring that they use the most economical and resource-preserving technologies available. Economists should think about how the necessary economic regulations would have to be formulated.

7. Human resources are a special chapter. The task of creating working conditions that promote development without offending human dignity is irrefutable. But it can be achieved only by a concerted system of economic measures - for instance, when we want to avoid that the introduction of a minimum wage leads to a loss of sales because of increased prices. The slogan "Poverty is our biggest competition factor" is a forceful example.

8. The way of using capital, as a resource needs to be further developed. Obviously, this is dependent on how the processes generating capital needs are perceived. We must acquire special sensory organs for a correct perception of such needs, to avoid the danger of a proliferation of spending, or of misappropriation by the ruling establishment.

9. The development of economic thought and policy relies predominantly on economic stimuli. But recent insights show that ecological considerations are generally fading from public consciousness, leaving control to purse strings. Yet one would expect people to realize that without a thorough alteration of public consciousness, it will not be possible to solve our resource problems. In fact, it appears questionable whether moral appeals to husbandry and technological equilibrium considerations are at all suitable to stimulate global responsibility.

10. Finally, this whole problem area of resources must be extended by asking what final use is made of the products. What really matters is not how much is being consumed by someone, but to what end he or she is using it? What is mankind achieving while it is "consuming" nature?

Donations as a Condition of Development. Handling "Intellectual Property" (Theses)

1. With the development of a global world order, particularly of a global economic system, the old frontiers are disappearing more and more. However, frontiers also give protection behind which processes of life can develop in a protected space. These shelters were increasingly destroyed or even abolished by the Bretton Woods appeal "Down with protection". We ask again for the responsibility for the development of all regions, which are less- or least developed at the time when the frontiers are abolished. The neo-liberalism believes that markets are the only answer to this question. But markets alone are not a social development model.

2. Life starts with an enormous donation. In our countries young people are in a socially protected place for many years. Parents or the society take care of them, until they can enter professional life after a period of education, training and studies. Donation in this context also means that parents and society do not demand a pay-back.. We trust in the possibility that there will be a return flow via social life in general. In contrast the development aid which the northern countries pay is extremely low. The industrial nations have "tormented" themselves with the question for decades, whether 0.5% foreign aid is reasonable for their national economies or not. Moreover, a large part of the very low donations is only given in the form of allowance for depreciation.

3. At the doorway of world economy one cannot expand straight away because the growth then hits back to inside for lack of expansion capabilities. Additional growth in productivity for example causes unemployment instead of more jobs. The forces of economy released by the growth of productivity have to be use in a new way to avoid illness of the social life. The development of the stock exchange shows the problem quite well since the stock exchange seems to be able to grow ad libitum because it does not need to take reality into consideration. The stock quotations are abstract and not filled with real life. The crisis of the stock markets has created some reflectiveness and doubts. But it is a question if this mood will survive the next stock market upswing.

4. The TRIPS agreement aims to protect intellectual property rights just at the moment where, for the purpose of development, the largest scale know-how transfer would be necessary.. Behind this question lies the problem that research has been increasingly drawn into the sphere of microeconomic business management and profit making. In this way questions of know-how become pure questions of competition.. Competition, however, doesn't ask after the development of the other human being but only looks after its own interests. For this reason it would be necessary to separate research and licensing on the one hand and production and distribution on the other hand. Starting from such a separation, a completely different distribution of the utilisation rights would arise. The effect would level the development differences instead of heightening them.

5. The development of a global situation makes it necessary to enlarge the understanding of economy by including the idea of donation. Without donation no development.

About the author

Udo Herrmannstorfer (Dornach); born in 1941 in Breslau; industrial manager, master of business administration, studies in economics. Since 1971 a freelance management consultant focusing on organisation and training. Study of Anthroposophy and its social impulses. Consultancy and support of initiatives which are searching for new forms, - based on the idea of social threefolding. Working on the questions of societal- and economic policies from a socioscientific point of view. International work includes lectures and seminars, works also as an editor and author. Heads the institute for modern forms of economic- and social life in Dornach, Switzerland.