From World War to World Crisis

Reflections on today's financial turmoil

Part of a lecture given in Brussels on June 18th, 2012 to contribute to commemoration of the lost generation of that awful event by creating youth bonds that might enable a current or new generation of young people to fill the holes left in history by those, from all countries, who died so young and so unnecessarily. What they might have gone on to do or become, we will never know. One can only hope that the folly and tragedy of those times can in some way be repaired or compensated for by investing in today's youth.

As we approach the 100th anniversary of WW1, it is well to remember that 'the Great War' was not a surprise. It was anticipated by many people at the time, who had their ear to the ground of history or who had a deeper sense for underlying developments. Three developments in particular were of concern then, and still are today.

The first was the culmination of proto-global economy. Whether consciously or otherwise, the British Empire provided the vehicle through which the 'sub- global' economies of the 19th century empires were brought to a certain pass. When Germany became unified under Bismarck and sought her place in the sun, only to find there was no space left, that meant the competing and colliding empires of that time had now to learn to be partners. The fact that in effect America told Britain that it was her turn to be 'top dog' only delayed this moment from then until now, meaning the collapse of Bretton Woods in 1973 and its continuing aftermath.

In 1914, the underlying evolution of economic life saw the modality of competing empires give way to that of a single global economy with its corollary – a single global currency. Until that time this had been provided for by the gold standard, whose heyday also culminated with WW1. Ever since, we have sought (but still hardly found) the way to leave gold behind. Nor will we be able to do this unless all exchange rates are truly and universally floating. Conversely, by achieving that we would lose our ties to gold, whether directly, via the gold standard or the gold-exchange standard, or by other less obvious means.

But in this regard we come to the second need. If globalisation was not then (as indeed now) to be a destructive force, the nations or peoples of the world needed to find a foundation for their own existence, and thus their international relations, based on what Milton Friedman was later to call their 'own lights'.

What does that mean? It is not about nations being self-determining in some abstract and geo-politically disingenuous way. Nor is it about finding one's identity as a people through economic prowess. Seen economically, it is about working in partnership with other peoples. This entails enhanced or heightened comparative advantage: knowing what one can bring to humanity's overall table more effectively than other peoples or countries. And doing so on a basis of recognition by the others, not self-assertion or dominion.

But if a country or a people is to have an identity not based on economic prowess, the members of that people will need, individually and collectively, to give expression to a new cosmopolitanism. This is true now; it was true then. Indeed, this is the hallmark of the kind of young people the *Regeneris Youth Bonds* concept has in mind, for it matters if, when someone is invested in, he serves himself only or realises thereby that he can serve the world.

If, as in Mozart's Magic Flute, we would dispel the gloom of modern economic life by increasing the presence of light, then this light must shine through the way we invest, and the way we invest in young people in particular. Conversely, to set young people against the world and the world against young people – which so much of modern economic life seems at risk of doing – is to make that light dim and flickering, when it could be strong and steady.

Mischievous Children of Versailles

It is these three things that I would like to comment on today, but also to update. Arguably, if all three aspects are to be taken seriously, but also given updated expression, then by who better than today's younger generation? Free of the burden of 20th century history and with the 21st century stretching out before them, the future is one of which – provided we do not leave it too late – they can be the authors rather than the victims.

Regeneris Youth Bonds is about investing in young people so that they can direct their own lives, not merely by seeking out jobs, but by creating the economic ground on which they will walk and build. Not just by earning money, although that is a key part of it (because being remunerated for what one can contribute betokens dignity and recognition, which in turn beget enthusiasm and generosity), but by unfolding their skills and talents, even destinies, in service to their fellow human beings.

Key to this is for today's older generations – those in government, those responsible for credit, economists and policy makers – to promote the initiative of young people, not only by investing in them but by doing so in ways that awaken them to a deeper sense of themselves. Of course, much is already happening of this kind. The idea of ***Regeneris Youth Bonds*** is to be an addition to that 'tool box'.

In certain respects, today's (continuing) global financial crisis has its origins in the culmination of WW1 in the Treaty of Versailles, concerning which two main problems resulted, the effects and consequences of which we suffer still today. As well as the already hinted at problem of Woodrow Wilson's principle of self-determination, there was the level of reparations demanded of Germany, which set in train an economic evolution that has passed through the Depression, a second world war and endless conflicts since. Alongside this, the journey away from gold to what in 1923 the English economist, John Maynard Keynes, described as the 'deliberate and scientific' management of economic life eludes us still.

On both counts we have been on something of a great detour, a journey that in many ways is bringing us back to those days 100 years ago – but with the chance to try again. Indeed, it is the idea that we can learn from our mistakes, "draw lessons for the future", that inspired the word 'regeneris'.

The level of reparations is perhaps the more crucial topic. It would take us too far to go into this subject in detail, but one should always remember the book about it written by JMK, The Economic Consequences of the Peace. ('*The Peace*' in English, '*Das Diktat*' in German!) From this event, and Keynes's analysis of it, the essence of world economic history ever since has unfolded. One can see this 'counterfactually', if one imagines the economy that would exist today if the kind of things Keynes said then and subsequently had been taken up. In fact, it is central to our thesis that they still could be, that they mark a latent history, a truer underlying history than the one we are used to speaking of. A hidden history, but one that is real enough to enable us to see what of today's situation, including policies and institutions, is baby and what is bathwater.

In particular, one can look at five things, all of them mischievous children of Versailles:

– the ever-present need to consider economic global partnership rather than competition
– the continuing challenge to free ourselves of gold
– the ingenuity of the International Clearing Union and its 'bancor' world currency
– the twin institutions for world liquidity and world capital (World Bank and IMF)
– the loss of the multilateralism of the GATT In all these things, it is not only Keynes's genius that we can observe, but the pulse and timeline of modern economic history. Awaiting deeper recognition, little wonder they are again on the lips of economists as they struggle to understand the global financial crisis.

From Gold to Accounting

It is not unreal to say the long decades since WW1 have been characterised by a failure to create a stable financial system. If the global financial crisis, and the fact that it is continuing, tells us anything, it is that. And yet, if we look more carefully, the underlying reality of modern finance tells another story – namely, that in accounting we find something that is not only universal and cosmopolitanism, but also the means to give modern economic life a modality that is truly global. Space limits the evidence one can adduce for this hypothesis, but the following sketch – of one thing of a higher order working through two other things both ‘lower’ but each different to the other – illustrates it. This is one image, one concept, one modality, on which one can super-impose four cases or instances, concerning the essence of macro-policy (first line), the global financial architecture (second line), the functions of money (third line), and the structure of accounting (fourth line).

Controlling Authority
Central Bank
Unit of Account
Closing Entries

Monetary Policy	Exchange Rates
Trade	Capital
Means of Exchange	Store of Value
Income & Expense	Balance Sheet

The point of the overlays is that each instance is a version of the one thing. In other words, and to make the focus very tight to our central topic of youth bonds, if one wants in one go to affect macro policy and the global financial architecture and the economic theory that underpins them, one need but begin with accounting, which exists independently of all of them, yet none of them is impervious to its influence. The person who develops financial literacy in this sense – the kind of financial literacy entailed in the ***Regeneris Youth Bonds*** concept – is not only able to understand the great issues of the day, but can contribute to their resolution.

On what grounds can one say this? Very simply: in accounting three things come together. First, it is universal, cosmopolitan. There is only one structure of accounting. Second, and of crucial concern today given the crisis with the euro, it allows a single modality as regards economic life without needing to displace national currencies. In a word, it acts as an unspoken world currency, the means par excellence of deliberate and scientific economic management (as also for letting go of gold). Third, it is just now in history that, because of the underlying one-worldness of modern economic life, we have had to devise international accounting standards.

One is aware of the biases and other considerations that play into the International Accounting Standards project, but the merit of it, to paraphrase Milton Friedman, is that it gives us the substance of a single world currency without the formality of one. Rather than imposing a currency, it allows countries to be sovereign yet play their part in the world’s economy.

Counterfactual and naïve this account may be, even fanciful, but something of this kind is needed to lift ourselves above the degrading events of 100 years ago. And to trump the pragmatism that all too often prevails in economic discourse with thoughts of a higher order and more earnest nature.

Forgiveness

One such thought, and an important aspect of the name *Regeneris*, is the capacity to forgive. We ought not seek culpability in the past, but possibility in the future. If we are successful in this, those who gave their lives so pointlessly (for where is the justification in so many million deaths?) may yet, from their new lofty perch, forgive the cruelty of the history of those days.

Forgiveness also allows forgetting – not forgetting in the sense of no commemoration, but in the sense of moving on after grief.

But forgiveness calls for deeds, not mere words. Deeds that have a certain quality. When debt is ‘forgiven’, the idea is to free the borrower of the yoke his debt has become (whether by his own fault or that of the ‘conjuncture'), thus turning buoyancy into encumbrance. Better that this provision is built into the borrowing concept in the first place by, in essence, investing, not lending. And making any return a function of the profitability of the borrower, the young entrepreneur.

In this sense, ***Regeneris Youth Bonds*** represents pre-forgiven investment. That does not mean a license to borrow irresponsibly. It means repayment arises out of free inner intention, not duty, and out of the economics of the case, not mere legal obligations. The idea is that the ‘alchemy’ of this arrangement will bring to both borrower and lender a special mood out of which all is done, both lending and borrowing, so that young people may achieve what their peers 100 years ago were not able to. In this way the ‘holes of history’ can be filled, and filled on a ‘fast track’ basis.

Important though it is to do so, it is not enough to remember those who lost their lives, or to say that they died so that later generations might be free. Free today means free of structural indebtedness, of an economy in which income does not cover outgoings.

It is the structural imbalance between income and investment, revenue and capital, that is the most mischievous child of Versailles. It is this, too, that gives to today’s financial markets such power. And yet this is a power they may well come to regret, should, as seems likely, the quality of their mercy becomes strained.

Much depends on the role of what Keynes called ‘the controlling authority’ (central banks) becoming matched by the inherent behaviour of the next generations. This idea relies on developing the kind of financial literacy that the ***Regeneris Youth Bonds*** are designed to promote. In essence, people need to learn how to keep and use their accounts as a means for achieving their goals, monitoring their impact on society (whether for good or ill), and as a way of perceiving their deeper talents and intentions in order to hone them and make them more effective.

Macro policy is about managing economic affairs so that money matches available goods and the exchange rate of a country is grounded in economic reality. The way to do this at the micro level is for every economic activity to be conducted profitably and for its balance sheet to be truer and not over (or under) stated. For this, too, accounting is key.

But for this to happen, those who undertake economic activity, entrepreneurs in a real sense, need also to be sovereign in what they do and why they do it. Both these aspects need to be tempered by the thought that profit is not the aim of economic life, let alone existence. It is a metric on how well one is serving one’s fellow human beings (for in reality it is they who value what the entrepreneur offers). Insofar as it is visible in the aims, the will, the destiny of its youth, such entrepreneurial sovereignty is a metaphor, but a practicable one, for the ‘own light’ of a people or nation.

Finally, in this story, accounting is an instrument for effecting such change – about the only one we have that is universal and objective. As already noted, it is the tool we need to achieve macro economic stability and prosperity out of our individual undertakings. The more so when we understand, as described earlier, the role of universal accounting standards as the future currency of the world. Through this we can all speak to one another in a truly cosmopolitan way. For no country and no culture can ‘capture’ accounting to itself. Nor can any person.

Accounting marks a break from the past to the future, so that what matters for young people is not where they came from, but where they are heading. This will lead to true authority. External ‘authorities’ are understandable pro tem, while we wake up, but they cannot be a surrogate for individuals consciously taking hold of economic life directly. Ideally at least, that should be the basis and the centre of authority in the years to come.

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