

Christopher Houghton Budd



FINANCE AT THE THRESHOLD

Rethinking the Real
and Financial Economies



**Transformation
and Innovation series**

Finance at the Threshold

Rethinking the Real and Financial Economies



CHRISTOPHER HOUGHTON BUDD

GOWER

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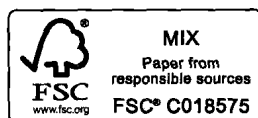
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But I have dedicated this book to Freya von Moltke because of her unswerving conviction that the fate of mankind depends on its future generations. This is not a tautology or a platitude. In economic life, especially as regards the thinking on which it is based, very much depends on the experiences, notions and habits of thought one develops in one's formative years, most of which, economics today being what it is, are reinforced by practical life. If there is anything awry in economic life, and it would be unwise to suggest otherwise, the starting point for lasting change must be with young people, and with the subtlety of thought they bring to bear on economic events, their own lives in particular.

Throughout my life, I have been certain that what matters is that young people develop a sense of their purpose in life, and that this depends to no small degree on the acquisition of financial literacy, along with being provided with the finance that can give credence to this sense. Rather than indebting students, for example, I believe they should be capitalised in ways appropriate to their life paths but so that the funding they receive puts air beneath their wings. In ancient Samothrace the statue of Nike once adorned the prow of a ship in a specially created lake. It is usually said that this represented a naval victory, but I am not convinced.

For me, the 'clue' to understanding Western civilisation, which owes so much to Aristotle who sojourned on Samothrace, is that, however down-to-earth, our thinking does not spring from there. It knows itself to be self-supporting. The initiative of youth, if it is not hopelessly overlain by a culture that does not, at bottom, believe in it, and if it is not directed away from a sense of itself by the many distractions on offer today, needs to spread its wings, Nike-style, and prevail victorious over the circumstances of existence. In this, especially in the future, the financing of youth has the most important part to play.

Christopher Houghton Budd
Centre for Associative Economics, Canterbury, England

Foreword

When I first met Christopher Houghton Budd he was writing a PhD at Cass Business School. I followed his work closely, for though his views on monetary economics were unconventional they were also both interesting and, it seemed to me, of possible practical importance. Further, even if I had thought everything he said or wrote was wrong, he was invariably stimulating and concerned to advance understanding – so under any circumstances I would have been interested in his work. The high regard I had of him from early in our acquaintance has been reinforced by this book.

The world has been through a major financial crisis. Indeed, it is through it only in the sense that the acute phase is past. Many economic and political struggles lie ahead before the world will once again be fully restored to financial stability. Why did this crisis occur, and what can we do to diminish the likelihood of such events occurring again?

In Chapter 2 Christopher gives a good and very fair summary of the conventional account of the crisis. Banks stopped lending to one another because each bank realised that it had on its books many debts that were unlikely to be repaid, and feared – indeed, realised – that other banks were in the same situation. This suddenly halted bank lending not just among the banks themselves but to non-banks also. In effect there was a sudden monetary squeeze, the world was plunged into recession, and many banks were at risk of failure.

This conventional account neglects a great deal. It treats the crisis as an event that can be studied in isolation, and looks entirely at the event itself. That is of course perverse. No physician would treat a patient's heart attack without knowledge of how other heart attacks had been treated in the past, and if advice were to be given on how to prevent the patient having another one then it would be manifestly necessary to look at the known causes of these past attacks, and perhaps to consider seldom used preventative measures and remedies.

It should not be forgotten that every previous banking crisis, whatever its particular circumstances, had two features in common with every other financial crisis, including the most recent one. Every crisis has been preceded by a period of excessive monetary ease, and by ill-thought-out regulatory changes.

To these points, which should be made by any careful economist, this book adds several insights. Economists' modelling their subject on the physical sciences is misleading – of economists as well as others – for it ignores the changing interactions among individuals, the complex nature of expectations, and not least the in general rather poorer quality of the data. Christopher emphasises, too, that money is a social construct, and that different kinds of societies may well require therefore different kinds of money.

In developing this argument and its implications the book builds on the work of Rudolf Steiner. Steiner is well known for his ideas on education. Very much less well known are his ideas on the economy and on money. On the basis of these most interesting ideas Christopher Houghton Budd argues that many of the differences between Keynesians and Monetarists, even those few differences that now remain, are based on misconceptions about the nature of the world. We would gain, he suggests, by changes

in the nature of banking systems, by a depoliticisation of money and indeed perhaps its internationalisation, and by changing accounting, so that it 'ceases to afford hiding places for uncertain transactions'.

This well-written and thought-provoking book will prompt its readers to reconsider their ideas on money, on credit, on banking, and on the role of government. Even if it does not change the mind of a single reader, all readers will go away with a deeper understanding of why they hold the ideas they do.

Geoffrey Wood
Professor of Economics, Cass Business School, London

Prologue

How integral is this book? It is not easy for an English economic historian, writing from an English perspective, to accept an approach that does not place Anglo-Saxonism centre stage. I do not mean it is not easy for me personally because, as I point out in the beginning of the book, I have always 'gone native' when outside England and have spent my life studying all manner of economic philosophies and indeed being active in their terms. Whether it be Marxism or green economics, being in business on my own account (thus learning that most crucial but least known skill of all economics, surviving a negative cash flow) or participating in Local Exchange Trading; whether it be serving in school finance and governance, becoming an academic among City and central banking economists, working in the 'less developed world' (as we so unfairly and inaccurately call it), consulting in a slum one day and interviewing investment bankers the next; whether it be researching the economics of Rudolf Steiner, who was no Anglo-Saxon, or learning about accounting, a schooling in numbers far more real and effective, both practically and theoretically, than the usual numbers of mathematics and econometrics – I have spent a lifetime studying economics from all angles. Because I never subscribed to the idea of shouting louder if not understood in a foreign country, I have also worked in several languages and various cultures. As a result, I do not in fact regard myself as an example of unintegrated economics. Yet I am Anglo-Saxon! Or at least English. One of the those Englishmen, moreover, who thinks that Jeremy Paxman, in his book, *The English*, pretty much got it right when describing who we are.

I have been to many parts of the world and spent little time in ivory towers. Having always been self-employed, I have also had to live from what I say, teach or advise, and thus been entirely dependent on my wits, as the English language understatingly puts it. Much of what I do outside England begins or is prefaced by deconstructing the role of narrow-mindedness, whether in economics or on the part of the English generally, in order to find the way to the essence of the country I find myself in. This is not always easy as many cultures are overlain, even enthusiastically so, with an Anglo-Saxonism of their own devising. How often, when visiting another country or culture and feeling the need to lessen Anglo-Saxon hegemony, one meets people going the other way! They are wanting to get to the US or the UK, not merely as economic migrants, but because for them 'the west' or the American Dream has genuine allure.

Indeed, there are places in the supposedly Anglo-Saxon world, like the Bay Area of California, or the US as a whole, and even England, that are like melting pots for all the world's cultures. There is also English, which is one of the most mongrel of languages imaginable, and for that very reason all the more easy to acquire. The Anglo-Saxon may have a special relationship to it, but it is hardly 'his' any more.

Yes, there has been a history of domination, often negative, unkind and ill-intended. And, yes, there is a dangerous reliance on mathematics. That, in point of fact, is why I studied economic history rather than economics per se. I am a 'plot' person, needing to know the place of what I am doing in the larger picture, both in space and over time. Those who rely on mathematical models do not need to do this; in fact they part company

with 'plot'. Plotting is more what they do, be it sales graphs, marketing strategies or even interference in sovereign states, which is what such policies as 'structural adjustment' often amount to in my mind.

The English have a special relationship to Anglo-Saxonism and to how to overcome its narrowness. By definition, our part in achieving an integral economics cannot be that of critiquing ourselves from another point of view. It can only be changing our own view of how we are and how we behave. I call this being english with a small 'e'. Where we have a history and even a psychological tendency to lead or dominate we need to become hosts, facilitators, accompaniers instead. Where we have laid down the law or dragged whole peoples overnight into a stage of development that took us centuries to develop, we have to know the moral responsibility this brings, and discharge that responsibility properly, not walk away from it.

It does not bother us that in 1947 we gave a man three weeks to demarcate the western boundary of the imminent Indian republic, to cite but one example of the way we let go the Empire. Or that we ascribe so many of today's problems to the 'immature cultures' we left behind, when the real immaturity lies in our continual interference in the affairs of sovereign nations that often passes as foreign policy.

Similarly, we think any and every person and culture on the planet has to be like us – 'blessed' with parliamentary democracy, an industrial revolution and abstract finance. We never stop to think that, for example, bi-party, first-past-the-post, adversarial governance may not be the height of parliamentary evolution, but its caricature. Or rather we do think about such things but then insist that all is as it should be.

How, then, does an Englishman make the 'e' a small one? The answer is not easy and not obvious. At least, not to my mind. If, rather than by being shoved there by others, we are to move ourselves from centre stage to a point on its edge, to join hands, as it were, with the rest of humanity – I call this going from imperialism to partnership – then our task is of a subtler, more transformative kind than adopting outwardly imposed changes. Like all real transformation, it has to be self-willed and directed by the one who would be changed or needs to change. If the Anglo-Saxon-dominated world is to not be such, the challenges we face are not those that confront non-Anglo-Saxons. They anyway also have in their own way to resist such things as market philosophy, Darwinist explanations of behaviour, the plausibility of supply and demand thinking, and any number of other concepts that trip as readily off the lips of non-Anglo-Saxons as Anglo-Saxons, and often with greater fervour and less criticism. An Englishman may revere or be steeped in Newton, but he does not necessarily admit him to his heart.

We also have to manage a problem that non-Anglo-Saxons do not. There are many in the Anglo-Saxon world and especially in finance who believe very genuinely in what they call 'the white man's burden'. This dangerous notion underlies much behaviour – from past colonisations, to hemispheric pacts, to Bilderberg gatherings and similar. Even, perhaps especially to global finance. This is a huge and fraught topic, which I am only touching on to signal the fact of its presence. Finding a way past such a reality – better still, enabling us to let go such dangerous predilections – is by no means easy. Career and funding prospects can be affected. Connections can simply not happen or be 'unhappened'.

It is not just a fascination with and dependence on mathematics that bedevils modern economic life and the way it is understood. In one sense, that is precisely the means that Anglo-Saxon dominance took up when outer domination had been achieved or run its

course by the late nineteenth century. Our true economic identity does not consist in manufacture or, in Napoleon's quaint image, being a nation of shopkeepers. It is to be tracked in matters financial, above all finance as conceived in and centred on London.

The very nature of modern economic orthodoxy has two consequences that, for me as an Englishman, are quite clear. One is that Anglo-Saxon dominance causes an external antagonism: people want to supplant or at least pluralise the prevailing paradigm. But that can really only be the position of a non-Anglo-Saxon. For an Anglo-Saxon it is a matter of seeing through illusions, overcoming myopia in thinking, refining one's concepts so that one gets beyond what, in this book I call the propensity to divide, so as to arrive at the propensity to unite which can readily follow on but needs a degree of will and interest in one's fellow men that dividing does not. We, the English at least, are lamed by this incompleteness on our part.

Our task cannot be simply to give way to other points of view, even if we are inclined to do so. We cannot just share the stage but have first to make it sharable. But that means we have ourselves to overcome the dead end that mere market economics can entail. Whether we break through the wall at the end of the cul-de-sac, or back up and find a path in the maze of human history that leads us further, time will tell. But the key to doing so will be to revisit cherished assumptions, redesign policies, take up different habits.

What do I mean by that? In the book I give details, but examples would be to study Islamic finance in order to see there arrangements that we could as easily arrive at, but out of the anarchy of individual freedom and responsibility, rather than in compliance with an external code of behaviour. Or we could overcome our fascination with real estate as an asset to be kept permanently in play and whose value is to be constantly increased – a practice that does not come out of any real economics, however, for an asset is by definition a means of production and is thus always being used up and never for sale (unless it is inventory). It comes rather from the Englishman's deep need to be connected to the earth, to things material. This is not unique to us but we are its 'best' exemplars. The English, perhaps the Anglo-Saxons more widely, have a need to find their identity through what they evidently achieve. They cannot depend on an idea, but need to be pragmatic. From this simple piece of inner fact, call it psychology if one resists anything deeper, derives much else. To begin with, our fascination with and even authorship of the materialist philosophies that underpin modern economics. Then there is the idea, as false as any idea could be, that economics starts with Adam Smith rather than Aristotle (at least as far as 'the west' is concerned). Next, those things that go to the essence of the Anglo-Saxon psyche – for example, the need to see one's home as one's castle. Or that an important person is said to be 'somebody', as if the deepest aspect of a human being is the skin and bones that clothe him.

If the Anglo-Saxons are to let go their hegemony, without which act there can be no integral economics, no sharing of the stage with other points of view, this is the problem that has to be addressed and addressed somewhat urgently. That, if it is not too pompous a thing to say, is what this book attempts. To lead the Anglo-Saxon mind out of its imprisonment. Out of the labyrinth of solitude, to remind us of Octavio Paz; back from the slain minotaur (thanks to Ariadne's string) but without forgetting to raise the white sail; beyond the confines of 'the box' (for which read brain) within which we have learned to think but outside of which lies the next step in intellectual development; to lift our gaze from its fascination with the ground, as if transfixed by the stare of a snake,

towards the blue sky and even beyond – to the world of blue birds also. To look up at a rainbow, as Dorothy did, or to fly up to it as the Wizard of Oz may well have done, is not an unimportant thought. But how about going to the other side, then turning to look down into the rainbow and to the earth beneath?

Of course, such poetical whimsy has no place in economics, or so we assume. But maybe that is the problem. We make the mistake that science has no link to poetry, to intuition. Yet whence comes a research question? What is a hypothesis if not a form of poetry, a formulation of something that initially no one else can see, but that one hopes can be gradually brought to others' awareness and recognition. The syntax and the articulation may become more prosaic in the process, but real prose never loses its link to poetry. Prose is not the antithesis of poetry so much as its generalisation, the transposition of leading thoughts from lofty heights to accessible foothills, the filling out and grounding of what first appears as sketch and intuition.

In short, the pathway to integral economics for an Englishman, who in a sense is also the epitome of an Anglo-Saxon, is to pass through what others would come up alongside. To release from his capture things which have in fact a universal quality and belong to humanity generally, not to any one group in particular, least of all his own. This is why all eyes for me are on accounting and on how one capitalises initiative. For whether it be the 'voice of the people' one is listening to, the deeper intent of an entrepreneur whose balance sheet currently belies the opportunity he has in mind, the health of the economy (which is what central bankers attune their ears to), or the as-yet-unformulated goal of an otherwise behooded hooligan whose chances in life, above all his chance to see himself as someone who matters, have been close to nil – everything depends on how a person or a nation expresses its deepest destiny and sense of itself.

In a globalised economy, moreover, such things are necessarily affected very directly by whether, at that moment, the capital implied by an initiative is made available on the terms of the borrower rather than the lender. In the first place, outwardly, structurally nothing, but nothing needs to change in such a situation. But paradigmatically everything changes. It is not easy, but not impossible, for a provider of capital to realise that it is not his possession of it that makes it grow, but the use made of it by the person he lends it to. At that point, however, is he in fact lending it or transferring it?

Capitalism could overnight become what I have for many years called 'capital economy' if we would just see through the illusion of the idea that capital ownership brings capital growth. What matters is the circulation of the means of production, the circulation of capital. Not who possesses capital, but who is using it. And not even that. What matters is whether the use is fruitful in a wide sense and whether, above all, the distinction can be made between what part of the fruits of capital belong to the various 'stakeholders' party to its use. Above all, can each of those parties further discern when more is allocated to their account than should be? For in this is the clue: can the lone, self-interested individual know by his own divining when he has taken to his balance sheet, as it were, an amount that does not belong there. Of course, if he were awake and financially literate he would be able to see this very precisely in the balance sheet itself, for a balance sheet cannot in fact be over-capitalised.

But where is this sense to come from in a world steeped in or saturated by Anglo-Saxonism, by too close a fascination with one's earthly existence? For my money, the answer is simple and universal, though boring and anti-climactic. It is to be found in looking directly into one's accounts (which exist irrespective of the currency one uses and

whether or not one is in a monetised or 'cashless' economy), for these in their essence are but a mirror of one's actions and therefore of the ideas and motivations, conscious or otherwise, that underlie one's actions. In a global economy, if allowed to unfold its inherent nature, accounting necessarily takes on this character. For all mankind there can be nothing else that does this. Accounting therefore has the power to bring Anglo-Saxon dominance to its Waterloo.

But what enables a human being to see this in accounting? It is one's deep, hidden, even long forgotten and seldom used but nevertheless existent, sense of right. This shines as a beacon across the last two millennia, despite the whole of modern history culminating in non-integral economics; a light lit or a tone sounded by Aristotle when he spoke of the need to know the mean in life. To paraphrase his eloquent words from the *Ethics*: a liberal man is the man who knows how to give the right amount of money to the right person in the right way at the right time.

Neo-liberalism, which seems to forget that it takes its cue from the towering presence of Aristotle, would do well to give thought to its own etymology. How, if it does, does neo-liberalism relate to this sense of right, of knowing when excess arises and how to ensure one does not privatise it? How does it square its belief in the importance of individual freedom with the need to include the context of that freedom, namely, all the other individuals on the planet? On the other hand, is it compatible for the Anglo-Saxon to conform to external codes? The Koran, for example, can be explicit in terms of *riba*, and one can create all manner of government regulations, but the Anglo-Saxon can never go this path. He has to find within himself what he has in fact banished from his vocabulary and code of conduct. Despite himself, he has to make clear what is new about Aristotle's dictum.

The new thing, in my view, is that what has for ages been there as the insight of a genius, as a guiding light, has now to become the basis of everyday conduct in monetary affairs.

When that happens, when the Anglo-Saxon, now the possessor of all the world's capital, realises how he can give it away to humanity as a whole, himself included, in the right way at the right time and to the right amount, then, but not until then, can the Anglo-Saxon of his own volition, and therefore with all the future forces at his command, take a place on the edge of the stage rather than occupy its centre. (This is by no means easy, however, because he knows well enough how to be at the centre even if he seems to be at the periphery. The British, for example, have no need to be part of the euro or the European Central Bank in order for both to serve British interests. They just need to have been in on their design.) In fact, the biggest challenge for Anglo-Saxonism, whether on the part of the English or anyone else, is not initially an outer event at all. It is to still one's egoism, to know its bounds, the limits of its social legitimacy.

Obfuscatory? Lacking in external drama? Sheer nonsense? Maybe. But I think not. To be Anglo-Saxon is not in the end to be of a particular ethnic or cultural provenance; it is to have one's mind focused on a particular destination, a particular mode of consciousness, the consciousness that comes with being self-aware. For then it becomes crucial not only to know why one is trying to do something and that one can achieve it, but also that one has access to the credit on which, in a globalised, monetised, self-conscious world, the fulfilment of any and every sense of one's purpose in life depends.

It is as if the role of Anglo-Saxon culture is to kill off all cultures (itself included!), so that they might create themselves anew, giving life to their latent but yet-to-emerge

potential, unfolding their re-discovered genius. It is to subject all cultural development to date to self-consciousness so that each culture can give bold expression to its future instead of merely reinventing or reiterating its past. New Africa is what we should be scanning the horizon for, New China, New Arabia, New Brazil, New Columbia (with apologies to Vespucci). And, of course, New England.

These are the single members of what I call the choir of cultures. The challenge they face, the challenge we all face, is to pass from cacophony to unison. But that is something we will never be able to do if we continue to take our cue from the dirge-like drone of Anglo-Saxon economics as it has become to date.

We could do worse than to heed the words of Alfred Tennyson when he wrote:

*Unfaith in aught is want of faith in all,
It is the little rift within the lute,
That by-and-by will make the music mute,
And ever widening, slowly silence all.*

At its 'height', Anglo-Saxon economics epitomises this thought, because, for all its bombastic certainty about itself, it risks separating human beings from economic reality, for which fact today's rift between the real and financial economies surely gives warning.

Transformation and Innovation Series

Series Editors:

Ronnie Lessem, University of Buckingham, UK
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This series on business transformation and social innovation comprises a range of books informing practitioners, consultants, organization developers, and academics how businesses and other organizations set in the context of whole economies and societies can and will have to be transformed into viable 21st Century enterprises. A new kind of R&D, involving social, as well as technological innovation, needs to be supported by integrated, active and participative research in the social sciences. Focusing on new, emerging kinds of public, social and sustainable entrepreneurship originating from all corners of the world and from different cultures, books in this series will help those operating in the area of interface between business and society to mediate between the two in the way that business schools once did until, as is now argued, they lost their way and business leaders came, in many cases, to be seen as at best incompetent and at worst venal and untrustworthy.

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PART



Loose funds may sweep the world disorganising all steady business ...

– J.M. Keynes

