

## BALANCED ECONOMY

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Gift-money / Lend-money / Buy-money

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H.J.Gels

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## PREFACE

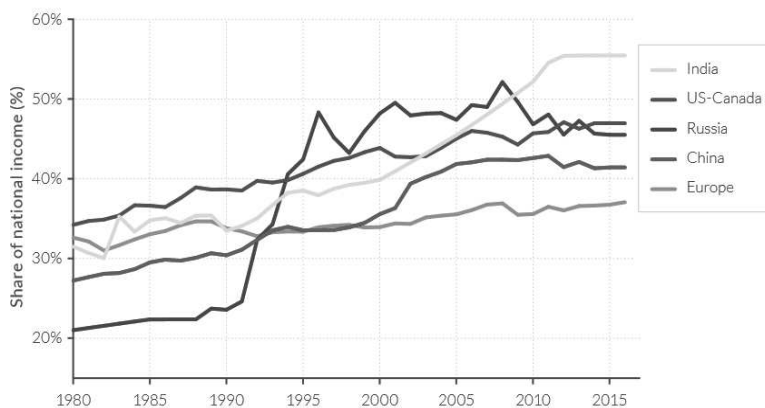
In the autumn of 1987 the first edition of the booklet 'Balanced Economy' was published. I wrote it on the insistence of Lex Bos and with his support. He was one of the founders and the first president-commissioner of Triodos Bank. The content has not lost anything to date. On the contrary, given the years of constant unrest and the series of accidents in the financial world.

In continuation of the first edition of 'Balanced Economy', 'Redesign of Capitalism' was published in 2015. 'Balanced Economy' describes the essence of what has been presented in more detail in 'Redesign of Capitalism'. In 'Redesign of Capitalism' a number of subjects are further deepened, a connection is made to existing literature and - thanks to Tom van der Kroef – a complete chapter is dedicated to the global financial crisis that broke out in 2008. In addition, Appendix-4 gives an initial explanation of the premise that the social organism, if seen as an inter-human organism, can be understood as a metamorphosis of the intra-human organism (our own body). This is fundamental to understanding the physiology of the social organism including the economic system.

This slightly revised version and second edition of 'Balanced Economy' has been published to meet the increasing demand for a summary of the book 'Redesign of Capitalism'. The limited size of this booklet will make the content more accessible than its extensive successors, and more suitable for translation. The enthusiasm of Ad Planken, the former chairman of the Basic Income Association, gave me the last push. The most important change in this slightly revised booklet is the following. The order 'physical - social-cultural' in the financial balance sheet and income statement has been reversed to: 'cultural-social-physical'. Thus 'cultural' is now situated at the top and 'physical' is at the bottom. After all, for us as 'social' human beings, the earth - 'physical' - lies underneath us, it is under our feet (see also page 317 in 'Redesign of Capitalism').

It is of the utmost importance that – thanks to Hayley Bagnall - this translated version is now available to the English speaking, because of their dominating the financial world already for so long. They are therefore pre-eminently the ones to take responsibility and initiative for the worldwide needed fundamental changes in the global financial reality.

Top 10% income shares across the world, 1980–2016: Rising inequality almost everywhere, but at different speeds



Source: WID.world (2017). See wlr2018.wid.world for data series and notes.

The established powers (governments, financial services and institutions) are yet to take serious lessons from the recent global financial crisis. Like a moat, large financial buffers were created to safeguard the existing financial order and their established ways (mores). Only marginal, but not fundamental adjustments have been made. With renewed strength, one continues with the usual financial

practices. But this path of accepted financial conventions inevitably goes from crisis to crisis and will lead the great masses into economic bondage, social chaos and cultural death. An important indicator of

the (im)balance of the economy is the distribution of wealth, that is the distribution of incomes on one hand and the distribution of capital on the other hand. And the distribution of income points in the direction of continuing polarisation: economically, the social organism is becoming increasingly ill. That is a most worrying issue that affects us all!

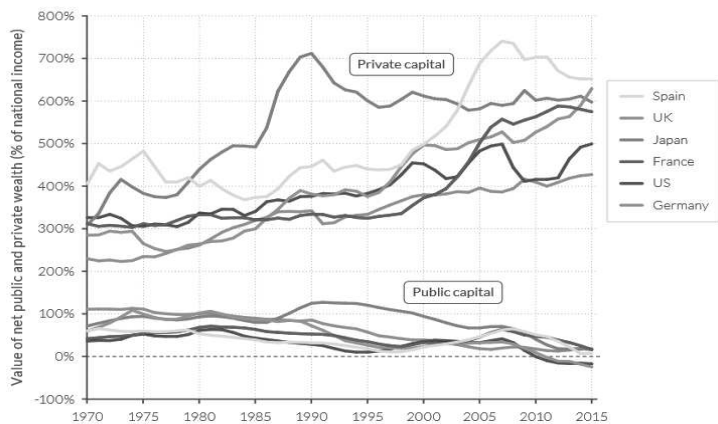
This booklet aims to provide a way out!

The economy, including the complete financial household, is not something we encounter; we create it ourselves! So, we are accountable and we will have to take responsibility. Our society is facing a decisive choice: continue with the existing paradigm or choose for a new, more equitable and sustainable direction.

According to Steiner, this new direction begins with recognising and respecting the threefold social order<sup>1</sup>, and by doing so, making a distinction between three fundamental qualities of money: gift-money, lend-money and buy-money. This quality approach leads us to a more human-friendly society with cultural freedom, social harmony (cosmos versus chaos) and economic brotherhood.

Steiner gives an important clue<sup>2</sup>: "That is what is so infinitely necessary for the future of humanity: people must train themselves to stick to reality while thinking, to really stay with their thinking into reality. Today, people are thinking almost only in words, they do not really think in reality." In this respect he also speaks of 'dead concepts' and 'empty words' likened to abandoned shells. It is the result of a gradual but progressive abstraction process that has already been going on for ages. We refer specifically to this clue in this booklet. In the case of the financial term 'share', section 3.16 leads to a most staggering discovery that has major consequences. Unfortunately, Piketty<sup>3</sup> c.s. leave the concept of 'share' untouched. Their graph on the right is based on this. It is very important that the concept of 'share' is reconsidered. This reconsideration is necessary and urgent in order to arrive at a more balanced distribution of assets and properties. You will find this reconsideration in this booklet.

The rise of private capital and the fall of public capital in rich countries, 1970–2016



Source: WID.world (2017). See wlr-2018.wid.world for data series and notes.

I hope you'll enjoy reading it.

H.J. Gels,

December 2017.

<sup>1</sup> The social threefolding was described for the first time in 1917 by Rudolf Steiner. See Gesamtausgabe number 23.

<sup>2</sup> See the Gesamtausgabe: number 293 page. 118, and number 172 page 139 and number 198 in lecture 10.

<sup>3</sup> Thomas Piketty is a French economist whose work focuses on wealth and income inequality. He is among other things a professor (directeur d'études) at the École des hautes études en sciences sociales (EHESS), associate chair at the Paris School of Economics.

## **PREFACE ON 'BALANCED ECONOMY' (1987)**

During the last twenty years of my career, starting as a junior clerk and now as a senior organisational consultant, I have remarked the following in the world of the organisational consultancy:

- The absence of a deepened and life-friendly insight into the reality of organisations that goes hidden behind a splendid mix of more or less hollow jargon.
- The pace and extensive adoption of automation in organisations, almost always determined by the available financial capacity. Partly because the socio-cultural impact of automation on organisations has been insufficiently experienced and recognised.
- A continuous but healthy distrust, particularly of employees, against mainstream theories and practices as used by experts in the area of organisation, automation, corporate finance and management. Often misinterpreted as 'resistance to change'.

At a pretty late stage I realised that the majority of the above mentioned areas of expertise concern phenomena that cannot be perceived by the human eye. To such experts these phenomena only become (apparent or assumed) reality through inner efforts, such as research, reflection and conceptual thinking.

Our own actions are an expression of our conscious and unconscious thoughts and ideas. The fate of our organisations reflect the impact of those actions, and thus also of our underlying habits and ideas. Ultimately, we have created our own reality, a macroeconomic and microeconomic organism that is confronting us with all kinds of worry and misunderstood issues. That discovery meant to me that we must thoroughly revise our own habits and ideas. But how? Our views and ideas are shared through language. So, in daily life language is a determining factor. Therefore we have to search for the original wisdom, that verifiable still available in our language, as a common heritage. In this booklet we wonder to what extent our usual financial terminology has been alienated or distorted if we compare it to its original meaning (as far as this is still available in the language).

Especially during my spare time in the last seven years (since 1987) I focused on such a revision of financial terminology. This started with the discovery that a hidden source of wisdom has been preserved in language. This booklet will show how this source can authentically serve as a basis for the composition of the balance sheet and the income statement. Also for the subsequent categorising and grouping of financial items, as registered in bookkeeping.

The contents of this booklet are pretty unorthodox. Therefore, in advance, I would like to address and weaken some of the cynical views, which I have encountered in the past:

- "That's way too idealistic, we live in a materialist era." Idealism means that in daily life one favours a particular ideal. But, the materialist is also an idealist, who just doesn't want to recognise that he gives preference to the idea that matter is the only existing reality.
- "That is not achievable." A practical example, produced using an automated accounting system, gives proof that it can be achieved. With just a small extension to the so-called 'chart of accounts', it is quite easy to integrate into the usual accounting systems. The fact that our legal system is complicating the social integration is certainly true. However, a legal system is a system of agreements and because it operates retrospectively it can and should adapt to changed views.

- "Very interesting, indeed! So this new method offers an alternative for the method we're currently using? But, alas, we already have a method in use." That's the position of the kidney patient, who starts eating their next portion of a salty delicacy. "Nice to know that there is also a salt-free delicacy as well."

Our current economy is characterised by polarisation, which is, among other things, most visible in extreme money concentrations: very poor and very rich countries, organisations and individuals. This problem seems to be a rather insoluble macroeconomic issue. Yet, in this booklet you will find an alternative approach which I think is worth considering.

This approach provides a practical solution to the above mentioned problems. This solution is to be used at the micro level and will enable us to sanitise the social organism upwards, starting from the microeconomic level. Ultimately this leads to sanitisation at the macroeconomic level. This solution method gives everyone the opportunity to contribute at his own place within society.





## 1. INTRODUCTION

In this chapter we present an overview of the chapters of this booklet. Thereafter we focus on its purpose and some advantages and disadvantages of the new method proposed here.

### 1.1 Overview of the chapters

Below we give the reader an overview of the chapters and how they are interrelated.

In **chapter 2** we put the question if now is the time to speak of a balanced economy, and to what extent the financial balance sheet plays a role. Among other things, we will have a quick look into the historical development of the balance sheet. We will see that a quantitative but not qualitative reporting principle is used on the composition and format of the yearly financial statement. In addition, that the current ideas on business economics actually proclaim business egotism, with all the antisocial tendencies that result from it.

For us, the financial balance sheet is not just an instrument to report about the financial situation in the past. It provide insight into the financing situation, and acts as an equilibrium instrument aimed at a financial future for restoring the imbalances in the financing of assets on the balance sheet.

The qualitative approach is new. That 'new' requires us to first carefully assess the content of our current concepts and ideas on financial-economic phenomena.

In chapter 2, we start by discussing our view on language as a phenomenon. After all, in our language, we put our views and ideas into words. The same applies to our financial views and ideas. We communicate about finance with financial terminology.

We will conclude, among other things, that finance always may relate: to **objects**, or to **agreements** or to **development**. Accordingly, that the several kinds of financial guarantees in these three fundamentally different realities must be anchored.

These three layers of reality refer to the well known '*nature*', '*nurture*' and '*culture*' (resp. physical objects, relational agreements, and development). These three realities are fundamentally different in terms of source and characteristics. It is therefore not indifferent what certainties are attached to the relevant funding. Even if one cares only very little about the health of the social organism, recognising this distinction and respecting it in the finance practice is of concern to the entrepreneur and financier.

After all, someone who does not take this distinction into account, may confuse different kinds of certainties and thereby create the illusion of certainties that ultimately may be fatal. Note that the financier may also be the victim of this illusion and it's damage.

After the completion of chapter 2, we will have laid a suitable foundation for further designing, or more precise, redesigning our economy.

In **chapter 3** we will examine some very common financial terminology. Words that are widely used in daily social and financial-economic life. One by one we will examine their meaning. We will test to what extent the current common beliefs correspond to the real meaning of each financial term. We will also systematically ask ourselves at what reality the term in question refers to: the cultural, social and

physical reality. It is a method, full of surprising discoveries, and because it concerns common terminology, it is of importance to everybody. It is in any case an excellent way of learning how to recognise the principles of the threefold society.

After closely examining our daily financial terminology, we can collect the first harvest in **chapter 4**. In this chapter, we categorise the examined words according to the above mentioned three realities: cultural, social and physical. Doing so, step by step, a new composition of the balance sheet and income statement will be discovered. A composition that clearly reports the financial position in terms of the three qualities of money: gift-money, lend-money and buy-money. A composition, which respects what is indicated by the content of the financial words themselves. It shows the presence of an authentic and verifiable basis in our language for determining the truthful format of the balance sheet and the income statement. In other words, this does not have to be thought out, designed and negotiated by experts, as has happened in the past. In a sense the new composition is already there, but more or less (still) hidden in language.

**Chapter 5** shows what this new qualitative composition means for financial daily practice. We discuss the consequences for the presentation of the annual figures as well as a number of conclusions that can be drawn from it. Also some new ratio's will be presented.

We have included the underlying overview of the used ledger accounts in Appendix-1 in order to facilitate the expert reader to compare the new developed format with the current compliant EC directives (1983). However, the conventional classification itself is not discussed. For this we refer to the extensive literature available in the library and bookstores.

After elaborating on the practical example, **chapter 6** explores some of the issues that relate to the possibilities and difficulties of applying insights developed in the preceding chapters.

The closing part, **Chapter 7** briefly describes some perspectives which can be derived from the insights developed in this booklet. This chapter is therefore task-oriented.

Practice has shown that financial and economic experts will likely have the greatest chances of encountering difficulties reading this booklet. The more you identify yourself with the usual financial theories and practices, the more trouble one seems to have with leaving these behind and creating inner room for alternatives. Only thinking about the 'new' can sometimes lead to strong feelings of uncertainty and threat. This became promptly apparent during the first course we gave about this subject. Nevertheless, you are being offered a serious alternative that is built on logic and is verifiable as well. Thereby you will be offered a real choice.

## **1.2 The purpose of this booklet**

This booklet is specifically not about discussing accounting. It is about the financial reporting derived from the accounting. The main goal is to contribute to the realisation of the threefold society. Starting with the balance sheet and income statement to make these suitable (again) as a necessary tool for creating a healthy balanced economy. For example, as a result of the financial position that can be read out of the balance sheet, decisions can be made to improve the financial situation. This shows how the financial balance sheet may function as a steering tool for the distribution of assets (distribution of wealth) in society. The income statement provides insight into the incoming and outgoing cash flows and therefore provides a steering tool for the income distribution in society (especially within companies and institutions). In effect they should actively be used for this social role!