The Circulation of Capital and Beyond

Facilitating ‘Personal Credit’ for Researchers

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w. Stephen Vallus

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Facilitating 'Personal Credit' for Researchers

One of Rudolf Steiner's trenchant observations about modern economic life concerns today's obsession with real rather than personal credit – providing capital against security rather than entrusting it directly to those taking initiative. To this day, even in our own movement, very little personal credit exists – in part, as regards loan money, because banks (including 'anthroposophical' banks) are by legal definition prevented from doing so; in part, as regards gift money, because foundations tend to put their capital in financial markets and only give away their revenue, less administration expenses.

As concerns the latter, there is also the problem that some grant makers allow only disbursements, such as travel costs, but not renumeration, while recipients of grants often do not realise that the money they receive may be revenue liable to taxation.

To address these problems, the funding arrangements established by and for the Economics Conference of the Goetheanum (part of the Social Sciences Section) have been designed with three practical aims in mind:

1) To enable donors to transfer excess funds from their estates to researchers in the School of Spiritual Science.
2) To increase the financial literacy of such researchers, and
3) To further the idea of the Anthroposophical Society as the earthly vehicle of the School.

In collaboration with US tax accountant, Stephen Vallus, the Anthroposophical Society in America and Hermes Trust in England, the arrangements have been 'road tested', especially in regard to tax legitimacy and cross-border money movements. The aim throughout has also been to achieve replicability so that other sections in other countries can establish similar conduits for gift money.

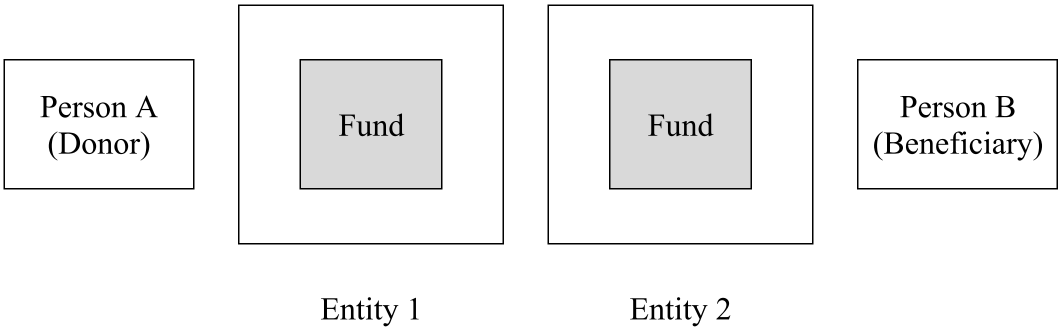
Accompanied by two sketches, this brief paper documents a specific and actual set of transactions, together with their tax treatment, whereby:

i. Person A (a donor) identifies an amount of capital in excess of his or her requirements and that he or she is ready, willing and able to transfer with public benefit in mind from his or her estate in favour of Person B (a beneficiary) who then uses it to conduct economic activity on his or her own responsibility (i.e. as a freelance initiative taker).
ii. The amount identified is then transferred to an entity (Entity 1) that qualifies Person A for tax exemption.

iii. Entity 1 receives the amount into a specified or restricted *Fund*[1] whose money movements are governed by/conducted in the light of clearly-stated protocols.

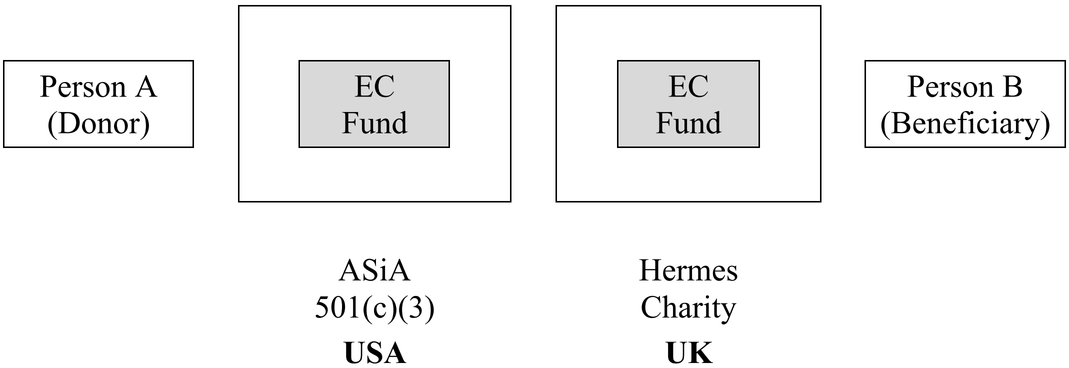
iv. The amount is then transferred to a like or associated *Fund* established in other tax exempt or obviating entities, in this case, Entity 2.

v. Money is then drawn down from this *Fund* by the individual (Person B) needing it, in accordance with budgets, invoicing and tax legitimacy terms – as befits and exemplifies modern financial literacy.



Sketch 1

Though thus far described in generic terms, the actual set of transactions entailed an American citizen at the donor end and a UK citizen at the beneficiary end; the first possessed of ‘excess capital’, the second in need of research funding. That is to say, in this case the transaction involved two distinct countries each with its own taxation regime and jurisdiction.



Sketch 2

The two entities referred to are *bona fide* charitable organisations. In the USA a 501(C)(3), in the UK a charitable trust. As such, they are standard vehicles where tax exemption is warranted. In actual fact, the entities’ tax exempt status is due to their furtherance of anthroposophy, meaning that the transactions also show how excess capital can flow into the anthroposophical movement for the use of, in this case, research *within*

[1] By ‘fund’ is meant monies held in trust on behalf of the activity to which they are restricted (to use the American term).

that movement. And so the paper also describes what amounts to the technical use of the Anthroposophical Society as the vehicle for funding the work of members of the School of Spiritual Science and so is a practical instance of how Rudolf Steiner envisaged the financing of a free spiritual life (i.e. those who take initiative on their own responsibility) both in general terms, and in the specific case of the School.

The Funds are those of the Economics Conference of the Goetheanum. The EC Fund is held in various funds in different Country Societies, with its overall bookkeeping done by a colleague, to whom the various treasurers report. The Fund operates within the frame of reference given in its protocols or guidelines.[2]

Because of the objective way in which any tax incidence was made visible and addressed as money passed from the estate of the donor into that of the beneficiary, the arrangements as such entailed no tax liability. More than that, such arrangements obey a social logic that is supranational. In principle, therefore, they can be expected to have wide replicability.

One can further argue that this provides a practical instance of how, taking today's circumstances as given, excess capital linked to one person can be transferred to another person in fulfilment of the idea (central to Rudolf Steiner's economic thinking) that capital should gravitate to capacities *otherwise than* through fiscal agencies and without incurring taxation, because such transactions obviate the need for such funds to pass via the state. Or, indeed, markets, whereby anonymous and even non-human forces achieve jurisdiction over them.

Steiner specifically criticises today's preference for and domination of 'real credit' over 'personal credit' – lending money against buildings and so on, rather than to people directly. He is also critical of the use of taxation to effect such capital transfers when they can as easily be the result of voluntary, philanthropic acts. The risk is that the state will eclipse and override what should belong to the province and behaviour of individual altruism. That said, even conventional philanthropy can mean that, rather than the user of capital determining its allocation, the donor can create a dead hand effect and/or the excess capital can become subject to a merely fiduciary (i.e. non-entrepreneurial) spirit.

It is important to note here that the arrangements also address what, in my mind, is a long-held fallacy in our movement – as in much of so-called 'civil society' generally – namely, that individuals who consider themselves to be 'spiritual workers' in the often-unclear sense they give to this term from Steiner, deem themselves to be exempt from income tax. I never understood how this could be thought, unless the money received was a clear donation *in tax law terms*, meaning a transfer of capital within any taxation constraints that may apply. Otherwise, funds to conduct research are simply a form of income, to be included in all income streams, less business expenses (in the case of a free-lancer), leaving a profit which is subject to income tax. But free-lance means one sets one's own hours, uses one's own equipment, sets one's own tasks, and has capital at risk. This means that a university, for example, will typically not engage free-lancers, but

[2] https://economics.goetheanum.org/fileadmin/economics/ECF_Protocols/ECF_Protocols_June_2016.pdf

will put them on payroll, requiring this income to be combined with one's free-lance earnings at the tax year end. It has long been a drawback of our movement that we think that what Steiner means by 'spiritual worker' is some kind of tax exempt thing. In the case of the Economics Conference Fund, a 'spiritual worker' is a researcher, but this does not mean exemption from income taxation. Therefore, in the UK and at the Goetheanum funds are drawn down against an invoice with the beneficiary's tax number on it. That is to say, the principle is universal.

Beyond the 'mechanism' described here, lie deeper considerations whereby one person transfering capital to another points to a karmic deed of important consequence and 'status'. It amounts not only to the switch from preservation to circulation of capital, but also to what really lies behind circulation, namely the respiration of capital, the breathing of economic life as prompted by human intuition and creativity. The opposite of today's 'transaction cost saving' explanation of economic history.

For one person to pass capital to another (especially someone outside the blood family) is a significant event because it also means grounding one's action not on the blood of prior or past family, but on the blood of the future human family as a whole. In other words, this is a Christian act, for the blood of humanity as a whole is not ours, as it were, but His.

It was at the 'Turning Point of Time' that it became possible to begin to act out of the future, in this sense, no longer out of the past. To reverse into rather than stride into history; to move into backward space, as a eurythmist would say. Giving in this sense, the sense meant by Rudolf Steiner when he speaks of 'gift money', is by no means a personal act, therefore, but an act that seeks to escape or still our too-strong links to personality consequent on Rome, and "all that name implies", to use Steiner's telling phrase.

Such an act, or such acts – for they can only multiply going forwards – are possible because those concerned (both donors *and* recipients) allow their Spirit Selves to inform their Consciousness Souls, and so learn to untie the bonds of egotism to which modern materialism has made them subject.

It is to this and yet deeper considerations that the logo of the AE Mark[3], for example, alludes to, where at the crossover between red and blue, purple (the reverse of yellow) expresses the relationship between heart and lung, limbs and head, willing and thinking.

Readers may ask: "So, what's new under the financial sun? Isn't this just normal not-for-profit procedure?" Answer: "Yes" and "No". "Yes", in that many people already give away excess capital by donating it to charity. "No", in that in many cases the beneficiaries are simply looking for funds for their projects, often without expecting to do due tax diligence. And "No" in that donors or beneficiaries seldom see their roles in the larger economic sense of shifting the allocation of capital from the donor to the beneficiary, from the provider to the user. And even that the process can begin with the financial literacy and tax legitimacy of the beneficiary-user, rather than the donor-

[3] http://ae-mark.com

provider. Or that such an arrangement is 'neutral' as regards which end of the process one begins, and therefore it enables the driving forces of history to flipe[4] from the past to the future.

And "No" also in this particular case because were entity 2 also a Country Society[5], the arrangement shows four important things that become possible:

a) Through such funds nested within the Anthroposophical Society either at the Goetheanum or in country groups (i.e. national societies) money can be lodged and husbanded for the work of the School of Spiritual Science (obviating the need to create separate entities for this purpose)

b) Money can be moved internationally without tax incidence

c) Researchers within the School can receive 'serious' income as such[6] (provided they treat their taxation correctly)

d) Without any loss of sovereignty or autonomy - neither financially nor ethically - the Anthroposophical Society can become a destination for excess capital from *outside* the Anthroposophical Movement.

Such things promise to transform our understanding of financing our movement, as also public perception of and participation in it. This is critical, given – as has always been the case – that the work of the School, i.e. the contribution its researchers can make to giving civilization a spiritual scientific basis – implies and requires far more funding than the researchers themselves, as also the membership of the Anthroposophical Society as a whole, can muster. Yet without such a purpose or *telos* outside itself, the Society (and with it the movement) risks becoming moribund – or at least a shadow of what it could, and arguably should, become.

PS: In addition to what this paper describes not being new, it is also not 'rocket science', although its nuances about capital allocation probably are. Indeed, through this lens one can revisit any number of youth financing cases to see how they approximate the concept. There is also the example given by the Goetheanum Fund[7] and the case of 'youth bonds'[8].

As regards the latter, the question is whether they are youth funds in fact, that is, in both letter and spirit. To this is connected to another key consideration, namely, three things need to coincide in practical life for youth bonds to be operative:

- the financial literacy of the borrower
- the provision of premises (either directly via capital acquisition or indirectly via renting)
- the availability of adequate pre-profitability capital.

[4] A Scottish word used when, for example, removing a sleeve-length glove from one's arm. It has the sense of inversion, turning inside out; so not the same as flip.
[5] Hermes Trust was used in lieu of the AS in GB.
[6] Not just refunds of expenses with an assumption they can do their work gratis or for a pittance.
[7] https://www.fondsgoetheanum.ch/en/home.html
[8] http://www.financefolkestone.com/youth-bonds