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OBITUARY¹

Hans Christoph Binswanger, a true economist and social scientist

Richard A. Werner²

Abstract

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Hans Christoph Binswanger, 1929-2018, was a professor of economics at the University of St. Gallen, Switzerland. His major interests and contributions were in the areas of macroeconomics, monetary economics, growth economics, development economics, ecological economics and the history of economic thought. He also made significant contributions to the field of economics and literature, as well as taxation. He was a co-founder of the Institute for Economy and Ecology at the University of St. Gallen and headed it from 1992 to 1995. He co-founded the (German-language) association of ecological economics. He was awarded many prizes and his impact on society was significant, not least via his impact in the area of literature, through which he reached a broad audience. Professor Binswanger recognised the role of banks as creators of money and criticised the fictional economic theories that fail to include a central role for money, banking and credit. One of his best-known books is *Money and Magic*, recently re-published in English with a foreword by Lord Adair Turner (Binswanger, 2016), in which he contends (and argues that Goethe contended) that the modern economy is the human attempt to achieve eternity, via the alchemical (i.e. ‘magic’ and deceptive) monetary process, which results in dislocations and harm to the environment, but is ultimately doomed to failure.

1. Introduction

Hans Christoph Binswanger, born on 19 June 1929 in Zürich, was a still active professor emeritus of economics at the University of St. Gallen, Switzerland, when he passed away on 18 January 2018, at the age of 88 years in St. Gallen.

Professor Binswanger was well known and highly respected as sound macroeconomist with a clear understanding of how the economy works and firmly motivated by wishing to improve the lives of ordinary people and protect our natural environment. Since he noticed that money played a significant role in economies, he had concluded early on in his career that it was wrong to exclude it from economic analysis. Instead, he focused on the very role of money and credit,

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which he recognised as a central feature of modern capitalism since at least the 17th century. Dissatisfied with theories that pretended otherwise, he researched and spoke clearly about the monetary process and the power of banks to create money out of nothing – decades before other economists realised this. His contention was empirically fully confirmed (Werner, 2014, 2016).

Using such advanced (since realistic and empirically well-founded) monetary economic analysis, Professor Binswanger examined the issue of economic growth and the impact that excessive growth might have on the environment. As a result, he became one of the first economists calling for sustainable economic development. Many of his works focus on the relationship between the economy and nature, so that he can be described as one of the first modern environmental and ecological economists. Interested in and intrigued by economic reality, Binswanger also took an interest in how economic theories themselves developed, and in due course he became also a well-established authority in the field of the history of economic thought.

All these interests marked him as different from the English-language economics that had become dominant since the 1980s, which either drops money entirely in the analysis or at least leaves out the modelling of the money creation process, focusing instead on postulating fictional theoretical worlds, often conducting merely a static analysis and distribution of given resources (and hence failing to understand growth) while remaining ignorant of empirical facts delivered by history as well as the history of economic thought. Since Professor Binswanger refused to conform to the dictates of such unrealistic fiction-based orthodoxy, sometimes he is referred to as an ‘unorthodox’ economist.

At any rate, he is an example of a widely educated scholar who naturally conducted inter-disciplinary and multi-disciplinary work in the pursuit of scientific truth and insight. This included his bestselling book *Money and Magic*, translated into many languages, and which is a striking economic interpretation of the well-known literary work *Faust, Part Two* by the German equivalent to Shakespeare (although in a later era), Johann Wolfgang von Goethe (1832).

At the same time Binswanger was more than just a scholar. He was also an activist and institutional entrepreneur on a mission to contribute positively to society. He founded both an institute focusing on ecological economics and was one of the founders of the association of ecological economics for German-language countries. He was engaged in his various communities, locally active, and supported co-operative societies and co-operative forms of organisation, which he felt were more in line with nature, as there was less pressure on extracting high profits (which in turn results in socially or environmentally harmful behaviour).

Professor Binswanger had not sold out to the financial oligarchy and he was nobody’s fool, and nobody’s hired agent. So when asked to back the initiative to abolish banks and centralise all money creation and allocation in the hands of the central bank – an initiative that must superficially have seemed appealing, as it deployed significant PR and media resources to publicise how banks create money ‘out of nothing’, prominently quoting Professor Binswanger and yours truly – he rightly remained cautious and ultimately requested not to be listed as supporter of this movement, which was very active also in Switzerland – including with involvement from UK-sent ‘activists’. I suspect it was his long experience with the tricks deployed by the powerful that rendered him suspicious of such a movement and its astro-turf methods not composed of true grassroots activists, likely concluding that it would ultimately only serve to concentrate power further in even fewer elitist hands. Thus he was not a supporter of central bank digital currencies. His actions showed that instead he supported decentralisation and local self-administration, as practiced by the co-operative movement (the UK experience shows that even co-operatives must remain vigilant against being instrumentalised by the financial oligarchy, as can be seen in the UK’s demutualisation of mutuals or some more recent banking

co-operative initiative that seems of the astro-turf variety and involved with closing down the last savings bank in the UK).

2. Biographical facts

Hans Christoph Binswanger was the son of the novelist Robert Binswanger and the painter Margarethe Goetz, and thus well exposed to the creative world of art. He studied economics at the University of Zürich, Switzerland, and at the University of Kiel, Germany. He obtained a doctorate in economics in 1956 from the University of Zurich and in 1967 he was habilitated at the Hochschule für Wirtschafts- und Sozialwissenschaften (renamed 'University of St. Gallen' in 1994). From 1969 until becoming Professor Emeritus in 1994, he was full professor of economics at St. Gallen, which itself, during his time there, rose rapidly in the international rankings of leading universities. He co-founded the Institute for Economy and Ecology at the university in 1992 and headed it from 1992 to 1995. He also co-founded the Association of Ecological Economics (Vereinigung Ökologische Ökonomie, popular with German-speaking ecologists) in 1996, which encourages co-operation between economists and natural scientists, as well as social scientists of other disciplines, including the humanities, and also non-academic members of the public.

He remained an active researcher and engaged with civil society after becoming Professor Emeritus in 1994, staying in St. Gallen and continuing an association with the Institute he had co-founded, while he worked on his publications and contributed to many international conferences as speaker until high age.

Apart from his research and his publications, he was also held in high esteem as PhD supervisor. One of his PhD students was the Swiss Josef Ackermann who subsequently had a successful career in banking, culminating in his position as CEO of Deutsche Bank in Frankfurt. His prominent student engaged with Professor Binswanger publicly in 2009, when Professor Dr Binswanger and Dr. Ackermann were the main panellists at an event sponsored by Deutsche Bank in Frankfurt to discuss the 'magic of money creation' and the meaning of Goethe's *Faust, Part Two*.

Hans Christoph Binswanger received many prizes, such as in 1980 the Bundesnaturschutzpreis of Germany, the Binding-Prize for Nature and Environmental Protection of Liechtenstein, the 1994 appointment as honorary Senator of Vienna University of Economics, and the 2004 Adam Smith Prize for market-oriented environmental policy by the Forum Ökologisch-Soziale Marktwirtschaft, among many others. It says nothing about the quality and importance of Professor Binswanger's work, but much about our process of honouring dedicated outstanding scholars that he did not receive any honorary doctorate from other universities (to my knowledge) nor was he awarded the Swedish central bank prize in economic sciences in honour of Alfred Nobel, or other 'establishment' awards in economics. Needless to mention, he did not aim at pleasing the establishment – he was a most convincing and formidable critic.

3. Some of his works

It is beyond the scope of this obituary to survey Professor Binswanger's many publications and contributions to many fields of economics. Here, merely a number of perceived highlights are mentioned – I say 'perceived', because I believe there are many more gems to be uncovered in his publications, to spawn a whole new literature.

In his habilitation (a kind of second doctoral dissertation to obtain a professorship, common in German-language countries), Hans Christoph Binswanger took on the ambitious challenge to

attempt to integrate monetary theory with mainstream equilibrium economics (published as Binswanger, 1969).

Hans Christoph Binswanger made numerous specific contributions, such as being the first economist to propose tax intervention in order to protect and enhance the environment, while proposing to use this ecological tax reform tool to keep the total tax burden light.

Binswanger's most important works include *How to Escape the Prosperity Trap* (1978), *Work without Harming the Environment* (1983), *Money and Magic* (1985) and *The Growth Spiral* (2006), the latter being a kind of theoretical synthesis of his work. Sadly, only the latter two are available in English – the majority of his publications are only available in German.

After University of Chicago Press let his book *Money and Magic* fall out of print, it was republished in 2018 with a foreword by Lord Adair Turner in England (quantumpublishers.com). In this book, Binswanger presents an eye-opening interpretation of Goethe's drama *Faust, Part Two*, which Goethe had instructed to be published only posthumously.

Binswanger shows that Goethe had actually presented a trenchant critique of the modern economy – centuries ahead of any other thinker and before the excesses and distortions had reached a point in the 20th century that made them obvious to most observers that had not been blinded by studying mainstream economics.

Binswanger's central argument in *Money and Magic* is that the modern economy is the continuation of medieval alchemy by other means. European rulers and princes sought to lay further claims on existing resources by creating money. Substantial resources were spent on alchemy, which did have the effect of giving Europe an early start in the developing science of chemistry. Yet the process of creating money only became successful in Europe when paper money came to be used. Like magic, this enabled the modern economy to take off. As the Emperor is made to say in Goethe's *Faust, Part Two*: "Es fehlt an Geld, nun gut, so schaff' es denn!" ("What is lacking is money. Very well, so create it then!", Kaiser, in Goethe, 1832, *Faust, Part Two*, p. 16).

The economic process is thus an alchemical process, Goethe argued in *Faust, Part Two*, and Binswanger recognised and explained this argument eloquently. The aim of this alchemical process is perpetual growth, in a worldly attempt to overcome transience and reach eternal life.

While mainstream economics focuses on tangible goods and services, Binswanger argued that in reality there is a fixation on virtual, abstract values and financial assets. In the world of financial assets, continuous growth seems possible, without an increase in inputs or effort. Binswanger focuses on this „magic“, alchemic and faustian part of the economy.

Binswanger was known and quoted by many well-known contemporaries. This included the bestselling German author Michael Ende, creator of the bestsellers *Momo* and the *Neverending Story*, which became a major movie production distributed by Warner Brothers. Ende had several things in common with Hans Christoph Binswanger – he was born in the same year, 1929, and while Hans Christoph Binswanger's parents were a novelist and a painter, Ende was also the son of a painter. Ende grew up and later lived in the sub-Alpine Chiemgau area near the lakes, while Binswanger lived further west in the sub-Alpine region just off Lake Constance. Like Binswanger, Ende also recognised the importance of the role of money, and was fascinated by this topic.

Michael Ende believed that a major problem for humanity was the “tyranny of money”. He sought out many experts, politicians, scientists, artists and of course economists, to discuss this issue and question them on the topic of money. He sensed that some important truths were being avoided, perhaps even covered up. He must have been surprised when he spoke to the alleged experts, the economists, that not many agreed with him about the importance of money, few were interested in engaging with him and hardly any seemed to really understand the monetary process. This was different when he encountered the work of Hans Christoph Binswanger. I suppose their common background, as mentioned above, must have established some bond. In any case, the two seemed to have understood each other well. While we don’t know whether Binswanger had read *Momo* (Ende, 1973), where the ‘grey men’, the ‘time thieves’ are a metaphor for the bankers, it is apparent that at least by the time Ende had written his 1993 opera *Pied Piper*, he must have read Binswanger’s *Money and Magic*.

In *Money and Magic*, the drive for limitless economic growth expresses mankind’s longing for eternity, and money has become a metaphor for immortality. But this longing is implemented in this worldly dimension, where it is only seemingly finding fulfillment, while ultimately the monetary process, when deployed in the financial arena, is little more than a magic trick, and ultimately futile.

Ende commented on his 1993 opera *Pied Piper* as follows:

“In the ancient cultural places of the world there was a temple, a church or a cathedral in its centre. From there came the order of life. In every modern big city there is a bank building in its centre. In my [opera] “*Pied Piper*” I have tried to depict this as a kind of demon cult, where money is something to be prayed to, like something sacred. It’s even being expressed there in words that it is “God”. It performs miracles, because the multiplication of money itself is yet a miracle. Money has the character of everlastingness. But if there is anything that is just a purely man-made thing, then it’s money” (quoted from a Japanese TV documentary).

We can clearly recognise the key message of Binswanger’s *Money and Magic* here. Like Binswanger, Ende never let his interest in the money question drop. To the contrary, he became an activist in establishing the *Chiemgauer* local currency in his native Chiemgau lake area of Upper Bavaria, which influenced many other modern versions of local currencies, including in the UK (even though these are only currency boards, and hence cannot use the full potential of a real local currency). Given Ende’s activism and the reach of his bestsellers and films, which include critical analyses of the role of money in the economy, there is little doubt that Binswanger had a significant ‘impact’ far beyond most economists, and reached a vast audience.

A Hans Christoph Binswanger Prize has since been created in his memory, which is awarded in collaboration with the Association of German Economists (Bundesverband Deutscher Volkswirtschaftswissenschaftler (BDVB)). The Institute for Economy and the Environment (IWÖ) at the University of St. Gallen, where he worked until his death in January 2018, invites submissions for this prize, which will be awarded for the second time in 2020. The prize is awarded to young scientists and postgraduates who do not yet have a full professorship. According to the host organization, the intention of the prize is to honor works in areas that go beyond mainstream economics and in which Hans Christoph Binswanger has made significant contributions, namely the role of nature and money in the economic process, the growth imperative in capitalist economies, or the economic interpretation of important works in literature and art. Published and unpublished papers or monographs can be submitted by 16 August 2020 in English or German to hcbpreis@unisg.ch. Originality and social relevance are of importance.

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Journal of Banking, Finance & Sustainable Development

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The Journal of Banking, Finance and Sustainable Development is dedicated to scholarly and high quality research publications that adopt the scientific methodology. This methodology, common in the natural and social sciences, but less common in economics, is the inductive methodology, whereby truth is sought on the basis of establishing empirical evidence. In 1978, when Deng Xiaoping argued that it was necessary to drop ideological blinkers in order to progress, he replaced ideology with the call and the imperative to "Seek truth from facts". Since facts are in the past, whether in the form of data or other factual information, including concerning institutions, such a scientific and empirical approach to economics often adopts a historical perspective or analyses data series statistically.

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