



Money is a Stupid Measure **By Peter Burgess**

'For the love of money is the root of all evil: which while some coveted after, they have erred from the faith, and pierced themselves through with many sorrows.' ...
King James Bible, 1 Timothy 6:10

In this passage it is the “love of money” and not money itself that is the root of all evil, an idea even more relevant today than it was when these words were written. So what is it that makes money a stupid measure?

There is not one issue, there are many. The one that should be the most obvious is that money changes its value over time. No other measure has this stupid property, not a mile, or a ton or a gallon. They all retain a constant value over time ... not so money. Worse, the money of one place can change in value relative to other places. In other words, money should not be thought of as a measure at all, but the result of all sorts of complex interactions in the economy, both local and international.

The fact that modern society is using money as a measure is one of the root causes of the increasingly systemic dysfunction of our complex socio-enviro-economic system. Money can reasonably be a measure within the economic part of this system, but is unsuited to being a measure related to the performance of society in its human dimension or being a measure about the environment and nature's bounty that we take for granted. As a society we should be measuring impact on people / society and planet / environment as rigorously and as effectively as we measure money performance, but money is ill-suited to these tasks.

As a society, we measure the money dimension of wealth accumulation, business profit and capital market performance, constantly and in real time. For example Bloomberg broadcasts capital market performance every 15 minutes. This is impressive, but not sufficient for a modern world where society, environment and economic (financial) performance need to be in balance. A society where money profit goes up and society and the environment are compromised is inherently unstable and not my idea of a 'Great Society' and not a good reflection of 'American Exceptionalism'.

The problem of measurement is compounded with measures like GDP (Gross Domestic Product) and worse, GDP growth. GDP is a money number derived from the National Accounts which are themselves statistical pictures of just the money transactions in the economy. If there is no money in the transaction, the transaction is ignored. This is no problem for banks, corporate performance and the capital markets, but it is a huge problem for society and the environment.

It has been conventional wisdom to equate quality of life with per capita GDP. The economists' and policy makers have embraced an assumption that more GDP translates into better quality of

life and for much of history this has been true. It is not true when the proportion of profit and wages within GDP changes significantly as it has done in the decades since 1970. The economic evidence easily available shows that conventional economic productivity has been growing rapidly since the 1970s. Until around 1970 the benefit of increased productivity was shared fairly equally between profits and wages. Since 1970 almost all the surplus arising from increased productivity has been captured in profit with almost nothing going to workers' wages.

This is a result of powerful money metrics within the business sector and around the capital markets, and while there is nothing of equivalent power that relates to the impact of corporate performance in relation to either people/society or planet/environment. Impact on externalities is not part of the monetary economic system, and is systematically ignored.

Rigorous measures are needed for transactions that result in good (or bad) even if those transactions do not involve an exchange of money. Parenting is one such transaction where a child gets huge benefit from good parenting which has impact for a lifetime. As a child, an individual gets benefit from good parenting. As an adult and a parent, an individual gives benefit as a result of good parenting. This is an important part of a flourishing society, but money does not start to measure this 'good'. A Church needs money to pay its bills and keep the lights on; but the really important things that a Church does in society do not get measured.

Increasingly it is recognized that economic activity at the present global scale is having an adverse impact on the environment, whether it is air pollution from automobiles and power plants, or water pollution and water shortages from intensive irrigated agriculture, or habitat degradation from minerals exploitation and agricultural expansion into rainforests. Money cannot start to measure these things in a meaningful way, but they absolutely must be measured in order for them to be managed.

Here in the US, for example, we have a huge amount of resource-rich and fertile land supporting proportionately fewer people than any other country in the world. This means that if you look simply at the money made in the United States and ignore consumption of natural resources, the idea of “American Exceptionalism” appears to be entirely valid. But when you take natural resource consumption into account, the USA is something of a laggard. Consider these data:

	USA	China	India	UK	France	Canada
Total carbon emissions (Million tons)	5,461	7,031	1,743	522	377	544
Carbon emissions per capita (tons)	17.2	5.3	1.4	8.5	6.1	16.4
GDP per capita. (\$)	49,965	6,091	1,489	38,514	39,772	52,219

The United States and Canada have very high carbon footprints per capita, much higher than countries in Europe with high GDP and, arguably, a better quality of life. Why do we in the USA use energy much less efficiently than people in European countries? Quite simply, because public policy in the USA favors money which is measured over environment which does not have a measure.

Expecting a, complex socio-enviro-economic system to perform well using money as the dominant measure of performance is never going to work. Fixing the framework of metrics being used for this complex system will go a long way to reducing the dysfunction of the system that is increasingly apparent.