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 here, there are many. One 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 is not a measure at all, but a result arising from all or the complex interactions in the economy, both local and international. In spite this, money has become the dominant measure for the performance of the economy.

And, of course, modern money can be manipulated. There are times when this is convenient as in the recent financial crisis, but it makes a nonsense of money as a measure. Trillions of dollars introduced into the money system with no inherent value and expected to be valued at the same value as all the other money. Magic … or stupid?

The fact that modern society uses money almost exclusively to measure the performance of our complex socio-enviro-economic system is one of the root causes of its increasingly systemic dysfunction. Money can reasonably be a measure within the economic part of this system, but more suitable measures are needed for the performance of society in its human dimension and everything to do with issues like resource depletion and environmental degradation.

As a society, we measure wealth accumulation, business profit and capital market performance in money terms constantly. Bloomberg broadcasts this information every 15 minutes when the markets are open. 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 in the process is inherently unstable and should be fixed. The money measure makes the imbalance worse.

The problem of measuring using money is compounded with measures like GDP (Gross Domestic Product). And GDP growth is an even worse measure. GDP is a money number derived from the National Accounts which are just the money transactions in the economy. If there is no money in the transaction, the transaction is ignored. This is no problem for analysts of the financial economy, but it is a huge problem for society and the environment.

It has been conventional wisdom for economists and policy makers to use per capita GDP as a proxy for quality of life. They assume more GDP translates into better quality of life and for for much of history this has been true, but not in the years since 1970. The economic data shows 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.

But it is worse, There are powerful money metrics being applied to improve to corporate performance but no measures of equivalent power deployed to incentivize better performance for either people/society or planet/environment. These externalities are not part of business accounting nor monetary economic system analysis, and ignored.

Rigorous measures and related infrastructure … not money … are needed for transactions that result in good (or bad) even if those transactions do not involve an exchange of money. These transactions are important in a healthy society. For example, parenting is a 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 back this benefit. No money involved, but this is an important part of a flourishing society. Another example: 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. If they don't get measured, they don't stay a priority.

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 does not start to measure these things in a meaningful way, but they absolutely must be measured in order for them to be managed. And they must be managed.

Expecting a complex socio-enviro-economic system to perform well using only a money metric for everything is never going to work. For progress in human capital (quality of life) and improvement in natural capital, there have to be dedicated powerful metrics, and the role played by the money measure and economic performance can then be related to something grounded in reality … something that has not been in play for money for a very long time.

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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. However, consider these data about carbon emissions:

	USA	China	India	UK	France
Total carbon emissions (Million tons)	5,461	7.031	1,743	522	377
Carbon emissions per capita (tons)	17.2	5.3	1.4	8.5	6.1
GDP per capita. ($)	49,965	6,091	1,489	38,514	39,772

The United States has a 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?