



MULTI DIMENSION IMPACT ACCOUNTING (MDIA)

Some thoughts about RISK

November 2014

Introduction

RISK is one of the most misunderstood aspects of life, of society and decision making. At the same time RISK is a big determinant of socio-economic performance in the future and quality of life for people.

Economic dysfunction

There is risk of massive economic dysfunction at some time in the near or more distant future. There is rather little understanding of how the economic system works in spite the large amount of data that are routinely communicated about the profit performance of corporations, the GDP performance of the national economy and the price performance of the capital markets.

The analytical framework for economic performances has its origins in thinking from the 18th century prior to the industrial revolution and the massive changes that have been enabled by increased productivity. The laissez faire free market capitalist ideas of Adam Smith have been more successful than the totalitarian communist approach to economy articulated by Karl Marx ... but that is an inadequate understanding of economic possibilities and risk.

Working class labor has not been well served by free market capitalism. Working conditions in the 19th century were abysmal as documented by authors like Charles Dickens. Karl Marx saw the same conditions and suggested that communism would be a better system. In the 20th century there have been events like the Oklahoma dust bowl and the Great Depression which were hell for millions.

It took a world war and massive destruction to invigorate the economic system ... hardly a desirable policy option for an economic system that really works.

For several decades after WWII, there was more stability in the economic system arguably achieved by having some better balance between the social programs of government, the pressures of labor unions, the growing productivity of technology and the goals of investors. However, this very tentative balance is in the process of disintegrating and disastrous consequences should be anticipated.

In the last five decades, improvements in productivity have been enabled by an amazing amount of progress in research and the development of new technologies. This includes but is not limited to computers, information technology and automation. What this means is that the aggregate performance of the economy is no longer constrained by people who produce, but by the needs

of people and their ability to buy ... in other words we have a global economy that is no longer a shortage economy, to one that is largely a surplus economy.

This means that the price of labor in a global laissez faire free capitalist market is going to trend down and down and down.

This means that there will be social discontent and likely some form of uprising. When, where and in what form is difficult to predict ... but the RISK of something like this happening is very high.

Knowledge and Productivity

There has been an amazing increase in knowledge over the past five decades

I installed a mainframe computer in 1967 with 4K of main memory. My mobile phone now has 4G of memory ... a million times more. This is an example of the massive power of technology now compared to five decades ago.

There has been a comparable increase in business process productivity starting early in the industrial revolution and accelerating all the time.

Relative to previous times, companies succeed more now because they have an ability to sell a product into a market than because they are able to manufacture the product.

Also, relative to previous times, less labor and less skill is required for manufacturing. Skill gets embedded in the machinery that automates the process ... including increasingly the robots that are able to do the work better than people.

This scenario means that in the end production requires very few people.

But this scenario also means that less people means less payroll and more profit ... and the owners and investors in business do well while working people do not.

This is what Occupy Wall Street (OWS) was all about. OWS had concern that banks were facilitating an industrial society where finance on Wall Street was becoming more important than manufacturing business on Main Street.

Police, the Security Apparatus and Political Power

Years ago the police were sometimes characterized as 'thin blue line' that helped to keep law and order.

The reputation of the police is very different country to country. The police in Britain are highly regarded, while the police in many other parts of the world are seen as corrupt and in league with criminals.

In the United States the police have a better reputation in 2014 than they did 30 years ago, especially in the big cities like New York, Los Angeles and many others. However, since 9/11 the militarization of the police causes concern and the ability of government authorities to use the police in ways that intimidate people and limit people's rights.

This was evident during OWS. There is a risk that this could get out of hand.

The bombing at the Boston marathon in 2012 put police power on display and then again most recently in Ferguson, Missouri.

The history of the use of the security services in establishing and maintaining the power of political leaders should be a warning. Hitler, Stalin used the security apparatus, but so have leaders in Africa, Latin America, South East Asia ... essentially everywhere and it still goes on.

Energy

There was concern in the relatively recent past that petroleum resources would be soon depleted, but with new technology this concern has gone away and is now replaced by concern that there will be 'stranded assets' because the resources we know exist cannot be used without doing irreversible damage to the environment.

'Stranded assets' means that the maximum of profit potential for an oil company will never be realized, and this is a bad situation for some classes of investors who have zero interest in the impact companies are having on the larger society and the environment.

There are abundant supplies of coal ... but the impact of burning coal is way worse than the impact of burning petroleum based fuels.

Energy has been the single most important thing that has enabled an improvement in the standard of living of people over the past 300 years. Without the present modern forms of energy using equipment standard of living and quality of life would drop instantly to something like what existed 300 years ago. The importance of energy cannot be overstated.

However ...

Many of the technologies being used to convert energy into something useful in support of quality of life are technologies that have not been significantly improved and modernized for a very long time ... steam turbines, internal combustion engines, electricity generation, nuclear, are all relatively old technology with a thin layer of improved instrumentation that makes them look modern.

There have been significant improvements in the technology for finding energy resources and extracting them ... but there have not been equivalent improvements in the way energy resources are processed and used. The reason for this may well be that the profit incentive for the corporation is to improve its own operations while ensuring that the market uses the products in the most inefficient way possible.

The energy industry is very concentrated with relatively few very large companies dominating the industry. These companies wield immense political power and have used it wherever they operate or want to operate.

The energy industry has a history of massive environmental degradation almost everywhere it operates, and has a very cavalier attitude to the people effected.

I have done work in the Niger Delta in Nigeria where many international oil companies operate. These companies have polluted the Niger Delta so that local artisanal fisherfolk can no longer survive. Who cares? Nobody ... it does not matter because it is not going to get onto the front pages of international newspapers. Shell, ExxonMobil, Chevron, Total and the rest are very good at Public Relations.

Food

Water

Built infrastructure

Minerals

Land

Social tension

Climate Change

Nationalism

Knowledge

Migration

Nuclear proliferation

Guns

Totalitarianism / Fascism

Geopolitics

TrueValueMetrics - Multi Dimension Impact Accounting (MDIA)
Some thoughts about RISK

----- /// -----

Contact information for Peter Burgess: Founder / CEO ... TrueValueMetrics

Website: <http://truevaluemetrics.org>

Email: peterbnyc@gmail.com

Skype: peterburgessnyc Twitter: @truevaluemetric

LinkedIn for Peter Burgess : www.linkedin.com/in/peterburgess1/

This paper as PDF: To come

Table of Contents

Introduction 1
Economic dysfunction 1
Knowledge and Productivity 2
Police, the Security Apparatus and Political Power..... 2
Energy..... 3
Food..... 4
Water..... 4
Built infrastructure..... 4
Minerals..... 4
Land..... 4
Social tension..... 4
Climate Change..... 4
Nationalism..... 4
Knowledge..... 4
Migration..... 4
Nuclear proliferation..... 4
Guns..... 4
Totalitarianism / Fascism..... 4
Geopolitics..... 4