MULTI DIMENSION IMPACT ACCOUNTING (MDIA)

Money is a Stupid Measure

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'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

Note that it is the 'love of money' and not money itself that is the root of all evil. I think that it is fair to say that this idea is even more relevant in our modern enviro-socio-economic system today than it was when these words were written.

Macau, Las Vegas, Atlantic City, Wall Street and London have one thing in common. They all make money from gambling. In Macau, Las Vegas and Atlantic City it is one form of wagering, on Wall Street and in London it is another form. Neither contribute to real wealth. The money that circulates on Wall Street and in London reflects a system that concentrates wealth in very efficient way, and in the process causes others to lose wealth, economic opportunity and their quality of life. All of this is enabled by money.

As a society, we measure the money dimension of wealth accumulation, but measure other important parameters of the enviro-socio-economic system hardly at all. Money profit or business and capital market performance are measured and reported on globally in real time, but the non-money impacts on people and planet go unmeasured and unreported. Bloomberg summarizes capital market performance every 15 minutes when the markets are open! Reports on climate change or social conditions happen maybe every 15 months!

Measurements are a mess. It is an aberration that quality of life tends to be equated with GDP, the default metric when there is talk about the state of the economy. Never mind that GDP is a measure of flows in the economy and not … and never has been … a measure of the state of the economy. The growth of income inequity in the US has been going on for more than 30 years, yet it is only in the last few years that it has become a point of discussion. Money metrics are broken.

People are important, money is not. In poor economies, more GDP does translate quite directly into a better quality of life, but this has not be the case for advanced industrial economies for decades. The performance of the economy depends a lot on the productivity of the economy, and this is a function of (1) technology and related investment; and (2) how policy makers and decision makers choose to distribute the resulting surplus between those that are owners and those that are workers in the enviro-socio-economic system. For the past forty years, the operation of the system has favored owners to the detriment of workers … and this is ongoing.

The planet … the environment … is important, money is not. Nevertheless, in this system where money is the dominant metric, measures related to resource depletion, environmental degradation and eco-system services are pretty much ignored. Scientists know a lot about how this part of the enviro-socio-economic system functions, but it is complex and their work is not easy to understand. Worse, there are no ways to summarize what is going on in a manner as powerful as the money metric for business profit performance capital market wealth.

I often argue that 'American exceptionalism' has a lot more to do with the amazing natural capital of the country than anything else. The United States has a huge amount of resource rich and fertile land and relatively few people compared to every other country in the world. By accounting for the money made, and ignoring the consumption of natural resources, the country seems to be amazingly exceptional. Accounting for the natural resource consumption the country 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 in fact, perhaps, a better quality of life. The efficiency of energy use in the USA is very low compared to Europe, a result of public policy that routinely favors money over environment.

When I was an economics student more than 50 years ago I learned that money was a 'medium of exchange' and a 'store of value'. Looking back it is apparent that money is also a measure of success. However, the system that has been gamed to create the appearance of winning where in fact there is a bigger community of losers. The money metric suggests there is a healthy US economy, when a better metric would likely show that most wealth has not been created by owners, but reflects a wealth transfer from workers. The way the money system functions has become dangerously dysfunctional.

The idea that money is a good measure of anything does not stand up. The unit of measure for length or distance is defined (by ISO … the International Standards Organization) and does not change. There is no definition for money as a measure, it is more variable in its value than a rubber band is a measure of length.

> *In 1948 my parents bought the house we were living in as sitting tenants for 700 pounds (@$2.50 about $1,750). Recently this house sold for 480,000 pounds. (@1.50 about $720,000) Same house. Same location. But the pound (the money measure) is different.*

And another case:

> *I bought a house in the United States in 1976 for $59,000. Two years ago this same house sold for $850,000. Same house, same place … but a money. measure that has changed.*

Money is not even behaving the same way in different parts of the world.

> *I worked as the CFO of an international company some time ago (in the 1970s). We operated in 26 different jurisdictions around the world ... we reported our results in US dollars but we carried on our operations in Naira in Nigeria, in Cedes in Ghana, in CFA in Cote d'Ivoire, in Liberian dollars in Liberia, in Malagache francs in Madagascar, in pesetas in Spain, in Yen in Japan, in Francs in France, in Rupees in India ... and every currency was changing in value to all the rest all the time ... and by quite significant amounts.*

Poverty is often talked about by reference to people earning less than $2.00 a day. This won't even buy one cup of coffee at Starbucks in the USA, yet a person can live, albeit in poverty, with this amount of money per day. There is something called PPP … Purchasing Power Parity … that adjusts this measure to make it more sensible … but from what to what. Bottom line, people in poverty who have $2,00 worth of money also are working for themselves growing food and providing critical services for themselves … enough to stay alive … but none of this effort is measured in any way at all.

In the United States, everything a bank does gets measured in money. However, nothing that is important for the quality of life of the family … like parents parenting, for example … gets measured. As far as the money measurements of economic performance is concerned, parenting is not important.

A Church needs money to pay its bills and keep the lights on … but the really important things that a Church does do not get measured. Money is a poor measure anyway, and not a meaningful measure for most of what is important in our modern complex enviro-socio-economic system.

There was a big worry in the 2007 2008 time period that the global financial system was going to implode causing massive economic disruption. It hasn't happened in large part because money came to the rescue. The world's central banks included the US Federal Reserve created new money to supplement the money already in circulation … an amount that was something like three times the amount previously in circulation. This did not solve the problem of dysfunctional money, it was merely a huge exercise in kicking the can down the road.

Money and banking are joined at the hip because 'fractional reserve' banking allows banks to lend more money than they have in deposits. In the early days of banking, experience showed that only a fraction of the resources in bank vaults deposited by customers would be required to cover withdrawals at any time, so this money was then used to fund loans to other customers. This worked well unless there was a crisis of confidence in the bank, in which case panicked depositors might all try withdraw their money all at once … a run on the bank. Since the Federal Reserve was created in 1913 banks have had what is a practically unlimited emergency backing for themselves, and with the creation of the Federal Deposit Insurance Corporation (FDIC) in 1933 smallish depositors are to all intents and purposes 100% protected.

Modern money is sometimes referred to as 'fiat' currency, meaning that the value of money is whatever the authorities say it is. At the same time money is traded on exchanges, and in this setting money has only the worth that gets determined by the market. The fact that money is both, puts into question almost everything there is about money.

Table of Contents