



Peter Burgess LinkedIn Blogs

Paying People What They Are Worth!

Peter Herring has drawn my attention to an article written by Robert Reich. This is the link: <http://www.alternet.org/labor/robert-reich-just-imagine-if-people-were-paid-what-their-work-really-worth-society>

In essence this article is about paying people what they are worth ... which is not at all what actually happens.

I usually like what Robert Reich writes, and this is no exception. However, I remember reading about the issue he is writing about in some 50 years old economic texts when I was studying economics a little more than 50 years ago.

There is serious systemic dysfunction when a problem that has been around for a century is still around and not getting fixed.

I have been of the view that economics is an important field of study, but in practice is a very weak part of the economy and the governance structure of society. They serve to influence public policy, but they have no control over what policy will eventually look like.

Meanwhile, there are bankers, financiers, corporate executives and so on that work with the money profit subset of economic measures and do anything and everything that is in their interest to make profit. There are timely measures and reporting on these matters, and lots of analysis that gets fed into decisions.

I argue that decision makers might allocate resources in a more appropriate way if there were better measures for things in society that are really important. When profit (and GDP growth) are the only things with really solid and easy metrics, they get attention and all the money. Meanwhile we do almost nothing to quantify impact on either people (society) of planet (resource depletion and environmental and ecosystem degradation) so little money gets allocated to these things. As far as I am concerned ... we will not change anything until we get the proper measures in play.

I am very much guided by the idea that we manage what we measure. If we look at sports, I think we can also see that when we change the way the game is scored, we change the way the game is played.

In order to 'value' things that are important for society, we have to quantify the value in a logical rational way. This can be done by building a database of 'standard values' rather like the way we use standard costs in cost accounting.

Quantifying something is not the same thing as putting a money price on it. My thinking at the moment is that there are three main groups of standards: (1) those that relate to money transactions for which we already have money; (2) those that relate to the impact on people and

their quality of life and standard of living; and (3) those that relate to the impact on the natural environment through resource depletion, and environment and eco-system degradation.

When a big part of the decision making moves from being dominated by the single metric of profit and money wealth to a trio of metrics that effectively measure performance for all the components that go into Triple Bottom Line (TBL) performance or Environmental, Social and Governance (ESG) performance, or any of the myriad of performance reporting that relates in some way to measuring externalities, impact and sustainability.

As I see it, there is a need for data that are handled in a manner similar to conventional money accounting, but about all the impacts that are arising from economic activity. Many of the impact dataflows already exist because of the money accounting dataflows, and most of what we need to know in order to understand impact is already in place ... it is some way of linking this to standard values for impact that is missing.

There is another issue that needs to be addressed in measuring value and using this as a way to manage. While something may have only one money price, it may have many different values to people (society) depending on the perspective or situation. The value of water for a person who has not had water for days is very different than water being delivered to a person with easy access to water at any time. A person may be indifferent to a medicine when the person is healthy, but the medicine has huge value when a person is sick. Value depends on the situation and this must be taken into consideration.

Robert Reich alludes to this in his article, and there have been economists that have addressed this issue. However. as far as I know, none of this academic work has been incorporated into a system of metrics that integrates easily with the existing accounting and business metrics ... money profits and wealth growth ... that dominate business decision making which ultimately determines the state of our economy and society.

It may not be easy ... but I think this can be done.

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