Peter Burgess LinkedIn Blogs

Payroll Down … Profit Up … Society Down

Most managers in business understand the idea that when payroll is reduced, then profits are increased. This is what productivity improvements have enabled for the past 30 or 40 years. Owners of businesses and capital markets have embraced this and employees have had very little to say.

The problem with this is that the money that flows through the payroll flows into the hands of the employees which is what these people need in order to fund their own lives and to fund their families.

In turn, these monies flow around the community and fund all the retail businesses that provide the goods and services people need on a day to day basis.

So when payroll goes down and profits go up ... society goes down.

There is nothing particularly original in this. It reflects rather basic accounting and rather basis economics ... nothing very sophisticated at all.

I think it was Henry Ford who first articulated the idea that a well paid worker would become a valuable consumer. This view of business and economics helped to produce an economy in the industrialized world where lots of well paid workers bought a lot of modern goods and services.

Well ... sort of!

The depression of the 1930s happened.

The Second World War happened.

John Maynard Keynes emerged as one of the world's most influential economists.

Public policy in the post Second World War period was designed to avoid a new depression and to do this there was substantial public expenditure on things that would improve productivity and improve quality of life. There was a significant increase in the wealth of the middle class, and for several decades the industrial economies boomed.

There were economic disruptions in the 1970s including the first oil shocks and by the early 1980s there was the start of outsourcing on a large scale enabled by massive improvements in logistics.

Looked at from the perspective of the United States, in the short run this made it possible to have more goods and services at lower prices, but in the longer run this meant less pay or in more and more cases no pay. This should have resulted very quickly in lower demand and lower business revenues and lower profits and important changes in the business model.

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What actually happened is that bankers and financial wizards figured out that demand could be sustained by an expansion in consumer credit, and then later an expansion in home equity, and an expansion in car loans, and an expansion in student loans.

While business revenues funded by expansions in credit to the consumers is unsustainable in the long run ... there are business decision makers and economists that argue that 'in the long run we are dead' and ignore the long run … but eventually the long run arrives. And now it is here!

So when I compare the United States that I first observed as a student in 1960 with the United States of 2010, just 50 years later, I am appalled. There was a time when the United States had a production capacity that was used to make things of value, and in so doing the people of the United States became wealthy. Today, Americans consume things that are making the American economy more indebted and the financing of this consumption merely moves wealth into the financial sector from the consumption class that goes even further into debt.

The really sad thing is that what I am seeing, seems pretty obvious, but when I look at the media or I read the analysis, I get the impression that thought leaders and decision makers just don't understand.

Or do they? Maybe there is a growing body of thought leaders who are starting to change the way this game is played. An important first step is going to be to change the ways we score this game.

Exciting times!

Peter Burgess - TrueValueMetrics - Multi Dimension Impact Accounting

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