



BREXIT

Some of my takeaway, June 30, 2016

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I have been surprised at the level of chaos and confusion after the results of the Brexit referendum were announced. Is something profound going on under all the noise? This is some of my interim takeaway!

On average, the world is a better place today than at any time in history. It is my impression that a lot of the world's leadership measures its performance and makes its decisions based on this average and all the dialog is all about this average. I understand this, and it really does not come as much of a surprise, but it hides real issues.

I was a corporate CFO when I was quite young, and I was good at helping the company earn more profits. Profits were the 'average', if you will, of all the transactions reflecting the activities of the company. Among the transactions there were good activities and there were bad activities in terms of contributing to the profit performance. My analytical or cost accounting enabled me to know which was which ... and by eliminating the bad activities and expanding the good activities, I was able to move the average ... and the profits increased.

When I apply this type of thinking to the present state of the world, it is apparent that the world on average is better than it was 50 years ago when I started my adult career. The money wealth of the world, which is sadly, the main measure of the world's wellbeing, is many times bigger now than it was 50 years ago. Most of this wealth has been derived from absolutely amazing increases in the power of productivity and the profits that this has produced for owners and investors.

I was responsible the installation of a mainframe computer in the late 1960s ... an IBM 1401 with just 4K of memory, but huge with glass walls, raised floor, etc. etc. Today, a smart phone is millions of times more powerful but society is not a million times better.

Technology has enabled an amazing increase in productivity which has increased the world's wealth, but almost all of this wealth has gone to those that owned the technology while those that were on the other side of the productivity equation ... mainly labor ... have been sidelined.

When the world's leadership ... and the media ... look at the average result, they see growth and success, but they ignore the labor component of the equation which has lost a lot of its wealth.

But it is worse. The people that look at the progress and performance of the world are not very good at differentiating between the real creation of wealth and the mere movement of wealth.

This is a problem, and has allowed organizations like banks and the financial services industry in general to prosper. In reality the wealth in this sector of the economy was created by some real activity somewhere else, and then merely moved into the banking and financial services sector where it is applauded. Some people are aware of pay-day lender abuse, but the mainstream of this sector is using a business model that has somewhat the same characteristics.

In the world of 2016 ... on average better than the old world ... the really wealthy 1% are very happy with the state of affairs, but the other 99%, not so much.

The fact that the not so happy 99% have been so quiet for so long is really quite amazing ... and there must be reasons. I think there are many.

Media and misinformation is part of the reason. The technology enabled 24 hour news cycle might have been a way to help people to understand the complexities of everything, but rather it has been dumbed down and gamed in all sorts of ways so that most people have little idea what is in their best interest.

Rich and powerful people enable these flows of misinformation. Rich and powerful people have control of the system in all sorts of ways, mostly not very obvious. In the United States the idea of rule of law has been hijacked ... through efforts like ALEC ... so that law increasingly benefits those that control the system. 'Loopholes' that allow bad behavior did not come about by accident ... they reflect the ongoing gaming of the system.

With the 1% / 99% state of affairs, in places where people have the chance to vote, one would expect that outcomes would be 99:1 against the status quo. The fact that in the run up to Brexit the result was too close to call until the day of the vote shows that lack of knowledge about economic realities is very much in play. In the end there was a fairly strong vote in favor of change ... with hardly any consensus at all on what the change should be.

The problem now is that it is not at all clear that British exit from the European Union will result in change to something better. Fundamentally Britain's relationship with Europe is not the main cause of the problems voters have to face day to day and likely did not drive the way people voted ... rather I would argue it is deep disquiet about the dysfunction of the system when viewed from the perspective of almost everyone except those who have wealth and power.

I have never been in favor of *'taking from the rich to give to the poor'* as a sustainable economic model. But 50 plus years on from when I studied economics in an academic setting, I am not in favor of *'taking from the poor to make the rich even richer'* which has happened to a great extent during the last 30 plus years of a technology driven productivity boom.

The utter confusion and chaos that prevails now post this Brexit vote convinces me even more that one of the key things that we need to do is to have better metrics about the socio-enviro-economic system that all of us depend on ... better metrics that link the wealth accumulation in some parts of the system and the wealth diminution that is taking place elsewhere ... and a lot more clarity about what is wealth creation and what is merely movement.

Exciting times ... huge potential for a better world.

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