

The Ecology of Wealth

A discussion paper exploring how
Added Value and Society meet Human Needs

A short note to explore a virtuous cycle created
by linking commercial activity and social responsibility

The purpose of this note is to share ideas about the linkages between:

- **Sustainable commerce which supports government**
- **Enlightened government which supports society**
- **A society that meets human needs**
- **The integrated society which supports sustainable commerce**

Managed through finance as the common denominator

The people who may want to read and contribute/challenge are:

- Senior financialists
- Market forecasters
- Society leaders
- Politicians
- Thought leaders

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A note:

The discussion below explores the flow of different types of Wealth and cultural characteristics – a dynamic that is very difficult to express through words alone. There are a number of flow diagrams which are easy to skip yet form the core of the argument, they need to be carefully explored to follow the logic closely.

Preamble

Culture defines the ways in which a collection of people together meet human needs and is manifested in the ways the people invest in their society e.g. infrastructure, learning and common property; directed to support the continual improvements that occur as society evolves

This note explores how investment derived from commercial organisations may be used to characterise and develop the society in which those organisations operate and how that society might support its people who, in turn, contribute to the continuing success of its people, industry and commerce – a **virtuous financial cycle**.

One of my lasting interests is value, culture and human needs which I have been involved in for many years, and one persistent conundrum that repeatedly emerges is how commercial *value* might enhance and contribute to the evolution of a *culture* to meet evolving *human needs*

The original concept that was proposed some years ago was: how might we translate value which is financial wealth, ownership etc. into values which are the evolving standards that people live by and generally improve the lot of their own society.

Human values are hard to define, other than '*Something you are prepared to be penalised for*' and are not a statement about a way of life or a culture. Financial value is also hard to define because it appears in many guises, and may be in different forms in different cultures, for example a wealthy person may own a large property in one culture or a herd of cattle in another.

In order to progress the debate, the expression 'value' has been maintained for the financial discussion and the expression 'culture' used for the societal values that people use to improve their circumstances and protect each other.

The expression *faith* is used throughout to include religion and belief.

The debate examines how culture is directed to satisfy human needs which have been explored in depth by Manfred A Max-Neef¹; his categorisation of human needs is used here to elaborate a point, not to expand or to develop his thinking, and is treated quite superficially.

The premise of this note is that money itself does not fulfil human needs; however the application of money through taxation, giving and faith creates the society that meets the needs of the population at a particular time. This note explores that journey and considers how we might begin to create a virtuous cycle where each stop on the journey supports and develops the other points on the journey

This note does not set out to draw firm conclusions; simply to provide a framework that supports further discussion about how finance may be better used to serve society



Concept boxes:

It became evident in developing this argument that there are potentially a number of additional avenues to explore which can be developed from the central theme. To capture these potential ideas, thoughts and hypotheses without interrupting the flow, they are noted in concept boxes for possible later development

¹ See *Human Scale Development: ISBN 0-945527-35-X* available as a free download

The Ecology of Wealth

Steve Mullins, Director of Ascot Associates Ltd. November 2010

Some Definitions

Because there are so many interpretations of value, culture, society and need, the start-point is a series of definitions to set the scene and provide a common foundation to develop the discussion

Financial Value

In this discussion, financial values are divided into five classes:

- Cost value – the cost to make an item, so if we take a book for example, the cost of the paper, ink, labour and equipment
- Internal value – the value provided by, say, the accounts department which is a notional value based on a series of assumptions; this may be used to value stock, and the stock value used to underscore a loan. If no-one buys the book the company will end up in deep debt².
- Exchange value – the monetary value for which an item is exchanged, and is often subject to negotiation, which is what people are prepared to pay for the good or service
- Use value – the value in use, the book may be read in which case the use value is high, or used as a doorstop when the use value is low
- Importance value – the value of the item to a person, organisation or society and may not be measured in financial terms e.g. an antique or heirloom

There are a number of other values in commerce such as *Transfer Value* (great for money laundering) or *Opportunity Value* (used to justify a dodgy investment), however for the purpose of deriving linkages the five values noted above track the movement of raw materials to market.



Concept box:

Calculated risk promotes forward motion, uncertainty holds things back. However, many of the 'calculations' involve betas and correction factors, possibly built on dubious statistics, so the risk is not well calculated and uncertainty is increased. See Mandelbrot & Hudson *The (Mis)behaviour of Markets* ISBN 978-1-84668-262-9.

Culture

Culture is normally moderated by our peers and may be divided into four classes:

- Personal culture – those principles which guide our lives, they differ from person to person, but in the main are bounded by what is considered 'reasonable behaviour' by peers
- Workplace culture³ – 'the way things are done around here', this culture may be at variance with personal culture (even if uncomfortable) but accepted due to peer pressure
- Societal culture – the expectations of the society in which we live to ensure the society works together coherently and for mutual benefit, and may be formalised in legislation
- Belief culture – usually determined by the faith of the society we grow up in; again a strong force for coherence, cohesion and also control, normally expressed in a spiritual setting. It is generally acknowledged that faith (usually in the form of a religion) has led to socialisation

² Please see the Concept Box on Page 11

³ See the work of Ed Schein

Society

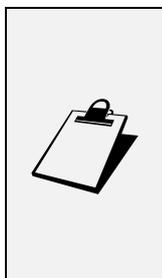
The dictionary is very good at defining what something is, but not so good at defining what something does. For example the Pocket Oxford Dictionary addresses society as: A social mode of life, the customs etc. of a civilised nation, any social community, an association of persons.

For the purpose of this discussion, society is defined here by what it does as well as what it is:

- A collective that has been established to mutually satisfy evolving human needs

As human needs change and evolve, so does society which allows societal structures to be classified in two ways:

- Tradition – the way things have always been done (for example at the opening of Parliament, men in ruffs and strange shoes search for gunpowder; when there are much better explosives today!), these elements do not change – and will even act as a drag on the evolution of society.
- Heritage – the things we stand for and underpin the way society works: honesty “My word is my bond”, caring – for all at the point of need, education – whatever social class you belong to. These elements evolve and change; honesty is in increasingly short supply, caring changes from nurses to numbers, and education is considered to be getting more difficult for some to obtain. Their evolution will be bogged down by tradition⁴



Concept box:

The rise and pervasiveness of inertia as an organisation grows lead to it succumbing to its own bureaucracy as a means to service its own interests, at which point it becomes psychotic (and mediocre). This may be seen in institutions, public bodies and even multi-nationals where the organisation serves those within it, not those who depend upon it. Such an organisation then becomes self-sustaining due to self-interest.

Human Needs

Human needs have been studied and developed by Manfred A Max-Neef who has identified nine needs which he explores in depth⁵; as this discussion is concerned with just the linkages it only scratches the surface of Max-Neef's work (His table of needs is included as an appendix).

The nine needs which cross boundaries and cultures are taken directly from *Human Scale development* and are:

- Subsistence
- Protection
- Affection
- Understanding
- Participation
- Idleness
- Creation
- Identity
- Freedom

⁴ Tradition is what we resort to when we don't have the time or resources to do it right – unascribed quote

⁵ Please see *Human Scale Development – Conception, applications and further reflections*; Manfred A Max-Neef, Apex Press, ISBN 0-945257-35-X

Money

A start point might be to compare money that is used in trading which might be termed 'liquid' money, with money that is used to build assets which might be regarded as 'captured' money.

'Liquid' money flows from place to place, person to person and good to good as a means to fuel the engine of industry and commerce and is often regarded as wealth – someone with a lot of liquid money is described as wealthy (however poor they might be intellectually, spiritually or socially).

'Captured' money is locked away in assets and infrastructure which finds its way into the balance sheet; however this 'captured' money needs to be considered under two headings: that which promotes trade (factories, equipment, offices etc.) and that which promotes society (roads, schools, hospitals, etc.). Some promotes both e.g. roads which allows trade to flourish and society to stay in contact.

The argument is that the continued and wise investment of 'liquid' money will generate additional 'liquid' money which is invested in more trade as a virtuous circle; any excess will become 'captured' money. This excess may be used to build the factories and offices that support additional trade⁶, and the more philanthropic organisations and individuals may invest some of it in social causes. Additionally, a good proportion will be taken as taxes and captured by government to invest in, and develop, society.

Another strand is the investment by faith groups to encourage people to worship together in a spirit of mutual support which may include caring for the infirm, as well as evangelism – it is the philanthropic, faith-led and governmental investment that contributes to the evolving values in today's society.

Two Considerations

Investment in commerce is the process of adding value to goods and services whilst investment in society supports and enhances the lives of the people in that society.

These two types of investment are driven by two interlocking cycles which are discussed below as:

- The commercial cycle
- The social cycle

The commercial cycle manages ventures which generate increased riches and wellbeing (usually thought of as currency which is often mistaken for wealth⁷) by industrialists who invest in ventures that will add value to be traded and in turn generate yet more money to invest – by some in their business, by others in themselves as large bank accounts, big houses or fancy lifestyles. Others may contribute to the social cycle through philanthropy.

The social cycle supports the development of people engaged in the commercial cycle to help them to sustain or improve their quality of life; and also supports those unable to participate for whatever reason – people who might be charitably supported, or considered wards of government or of faith.

⁶ Either directly by the organisation which created the added value, or from others' profits recycled through the banks as loans or other financial instruments

⁷ See Adam Smith – financial, spiritual and social wealth/wellbeing; or John Elkington – profitability, environmental quality and social justice

The people in society trade their time, learning and skills with commerce for money; and those unable to participate are largely supported by the state whose overarching role is: *to protect the country and improve the lot of those within it*⁸; – see figure 1 below.

Two types of investment

It is important to distinguish how investment is used for different purposes: to support trade (commercial investment) and improve the lot of the people within society (social investment).

Commercial investment supports the development of added value⁹ and is often fairly temporary e.g. the trading halls which have become museums, hotels or pubs.

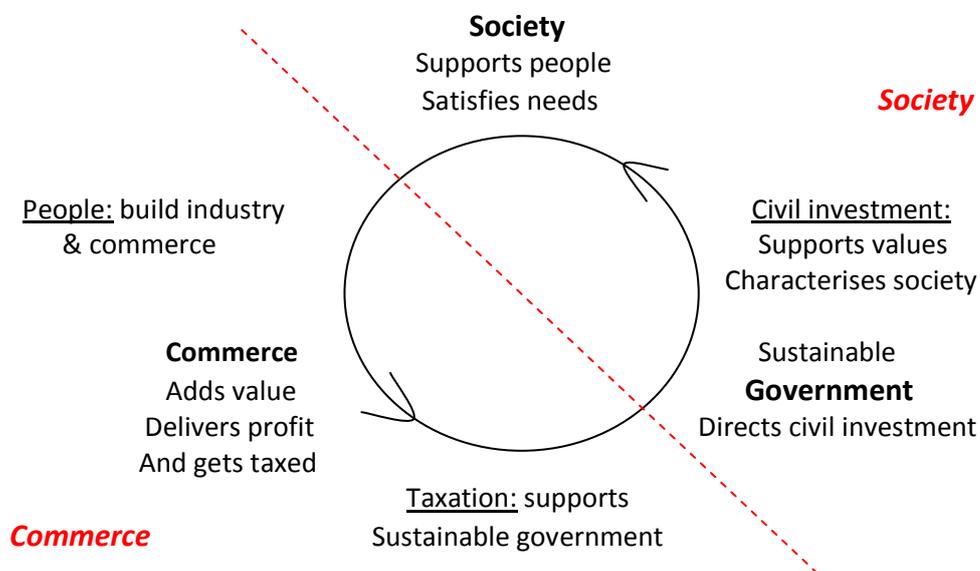
Social investment is often long lasting e.g. seats of government, places of worship or centres of learning. In turn this investment characterises that society – its architecture, learning, literature, social programmes etc.

It may be argued that Western commerce has only been properly active for a couple of centuries and so has not had the opportunity to deliver examples of lasting commercial investment; but where is the original Stock Exchange, the original Bank of England or the original Royal Mint, when redbrick universities, railways and hospitals established about the same time are still active and strong.

There is an apparent exception to this argument with the market, which is a very long-standing trading organisation; however the market represents as much a cultural centre as a place to do business – witness the bazaar, souk or farmers’ market, each with its own very distinctive cultural and social structure and legacy.

More recently we have the emergence of the shopping malls which are simply a means to trade, with little or no social or cultural signature.

Figure 1 – The Virtuous Framework



⁸ Seems to have been forgotten by a number of politicians

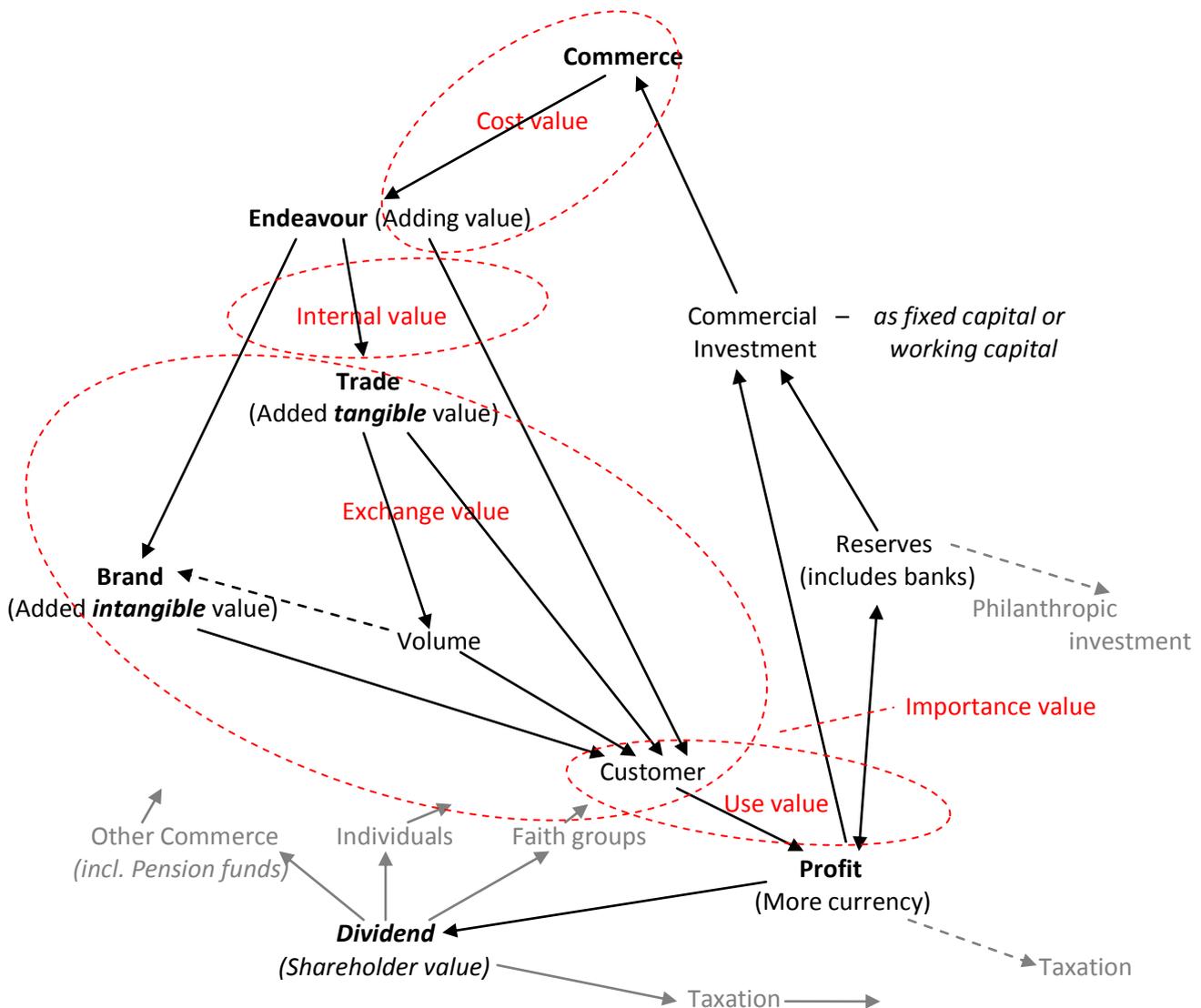
⁹ The trading in potential value as shares of company stock is discussed later

The Commercial Cycle – Adding Value in the short- to medium-term

The purpose of the commercial cycle is to generate increasing amounts of currency by adding value to goods and services. For example, iron ore (a very basic commodity) is transformed into a canteen of cutlery which has significant added value and sits comfortably on the most expensive of tables – and sells for a great deal more money than the original raw material cost.

The continued demand for profits drives this cycle and is the over-riding purpose of the commercial value-adding organisation; this profit growth¹⁰ ensures the sustainability of the organisation and for it to continue to be able to invest. The cycle is shown diagrammatically below as figure 2:

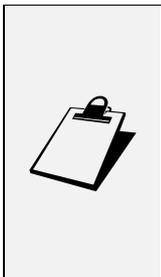
Figure 2 – Delivering Increasing Value (assumes a profit centred organisation)



¹⁰ Described in more financial detail by Rappaport's *Shareholder Value Model* of 1998

Commerce may invest in a new endeavour, driven by invention (intellectual capital – which is traded – see Concept box below), in turn the invention may be developed into numerous variations; each with tangible added value to be marketed. As the organisation gets bigger it will invest in assets to reduce cost and increase volumes, whilst at the same time raise its profile (the brand).

Goods and services will be more aggressively marketed and the brand itself developed into something that is in itself commercially valuable. All of these activities build the growth, the profit and the commercial sustainability of the organisation which leads to an increasing stream of taxable revenue for further investment by government in society.



Concept box:

Government investment in R&D with SMEs (the usual source of creativity and risk-taking) is diluted by bureaucracy and government's fear of 'failure' (one company spent £70,000 to administer a grant of £40,000 ! !). Surely, there's a case to be made to channel government funds to invention through a commercial organisation more prepared to take 'risk' and less concerned about bureaucracy.

The Social Cycle – Promoting Society for the longer term

It is important to separate Social Investment from the Commercial Investment discussed above; social investment promotes those activities that are directed to build an increasingly strong society which supports the people in that society who contribute to the commerce needed to deliver increasing added value to invest back in that society, and so maintain the virtuous circle.

There are two elements to social investment:

- Tangible investment e.g. infrastructure and buildings
- Intangible investment e.g. learning and care

A large part of the purpose of government (aside of law-giving) is to manage and direct social investment. The cycle that identifies how social values may be developed to support long term strategy (health, education & infrastructure) is one that reflects the circumstances of the day and is funded by taxation, with contributions from others such as faith groups or philanthropic investors¹¹.

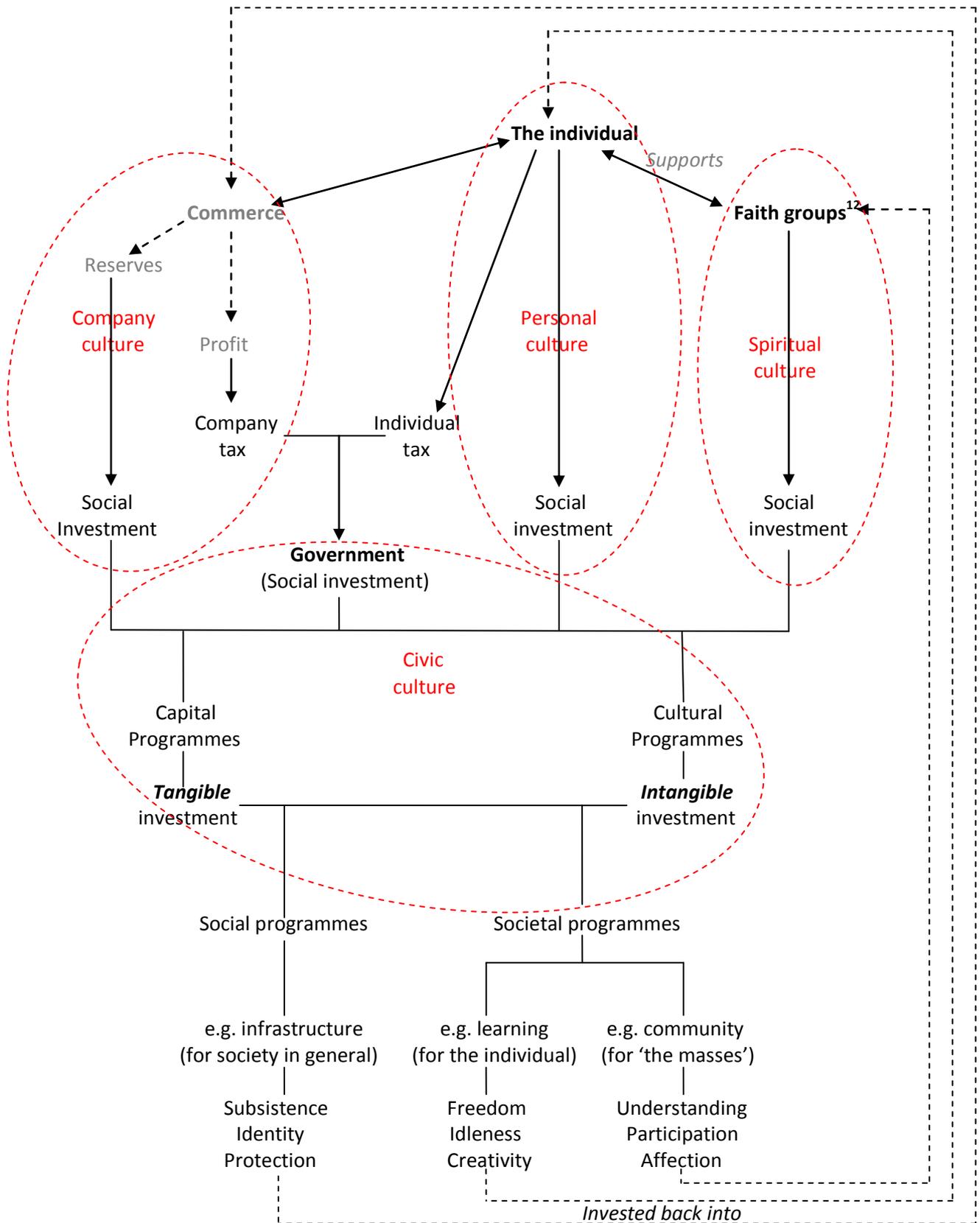
Tangible investment may include, in addition to finance, donated buildings, artefacts or common land

Intangible investment may be in time, for example giving unpaid guidance to a charity or social group, teaching special needs outside school or in prison, or providing mobility for the elderly or infirm.

This is described below in figure 3 – The Social Cycle

¹¹ If any of these fall down the society crumbles; witness those countries with very rich leaders, opulent government and well fed militia, but in a society characterised by hopelessness and starvation

Figure 3 – The Social Cycle



¹² Nearly every society has a form of belief – in some cases more dominant than the government of that society. Historically for many, faith has defined society and how society operates (marriage, Sunday trading, great art, architecture etc.)

Potential Value

Commerce creates profits which fund the development and investment back into business and also generates dividends to reward those who have invested in the organisation – be they individuals, other commercial ventures or faith groups; in turn the investors are subject to taxation¹³ which supports government activity.

Investment in an organisation is normally as a part of the stock¹⁴ (shares) or as bonds (IOUs) entered into on the basis that the financial return from the organisation will be better than that of the banks, e.g. if the bank rewards depositors with 5% annual interest and each year the organisation repays 10% of the money invested in it, it makes sense to invest in that organisation. It is also an extremely efficient way for an organisation to establish and grow quickly and be able to invest back into society.



Concept box:

On the basis that the dividend rewards those who have invested in the organisation, it becomes evident that high yielding organisations are more desirable than average or low-yielding ones; at which point the share value is dislocated from dividend yield and becomes of potential value in its own right to be bought and sold. In providing this financial return the shares and bonds are deemed to have potential value but do not have any tangible added value simply a possible future return on an investment. Because the organisation hasn't yet delivered its profit shares in that organisation are traded purely on the basis of speculation.

At this point the person with the best argument may be able to artificially inflate the value of the share by fuelling speculation – *'in the long term the price of housing always rises, never falls'*. And often enough this speculation is supported by some spurious statistics based on historic trend data or the bell-shaped curve – both wrong statistical instruments in this situation¹⁵; this is exacerbated by academics who have gained their position and prestige by patches, add-ons, betas and all manner of corrections to a fundamentally flawed model, so they are unlikely to put up their hands, admit their mistakes and risk losing their personal status and kudos to put things right. It will be a brave academic who does.

Compounding this folly is a group of people who keep finding new ways to add notional future value, supported by convincing hot air and spurious argument; overseen by seniors and regulators who don't quite understand how things work but are afraid to show ignorance and don't really care – provided this trade in *vapourware* continues to deliver increasing amounts of money to their own organisations.

It is also salutary to reflect on regulation; when a new financial instrument emerges there are no rules as to how it might be traded and managed for quite some period of time until the regulators have begun to understand how it works, so by the time regulation is introduced it is already too late to curb the worst excesses¹⁶.

¹³ Whether paid or avoided!

¹⁴ The assets that are used to add value, so the basis of investment is on the future expectation of one organisation being able to add more value (cleverer goods and services) or to profitably trade greater volumes of goods or services than its competitors

¹⁵ See Mandelbrot & Hudson *The (Mis)behaviour of Markets* ISBN 978-1-84668-262-9

¹⁶ See also <http://fundamentally.typepad.com/files/regulation-and-the-debt-based-economy.pdf>

Those trading in potential value no doubt justify their specious activity by being liable for large amounts of tax on their “earnings” or bonuses which should fuel the social investment driven by government. However, much of this fails to be captured due to sophisticated tax avoidance measures¹⁷ and so the opportunity for continuing social investment is lost from the society that delivered the culture (education, skills, care etc.) that support the development and sustainability of commerce.

When a new regulation is introduced (usually after the event) someone will soon find a way to circumvent it. Might it better to regulate the actuaries, economists and professors who generate the spurious statistics that, in turn, generate the mushrooming number of new and quite dangerous financial instruments?

Is there a conversation to be had about regulation and how risk might be regulated or controlled on a broader front than is the case today?

Summarising Value

Value is created by the commercial activities of organisations through added benefits to goods or services, it may be considered to be short-term or medium-term and recognised as tangible value or as intangible value.

Tangible value may be delivered as technical excellence to manufactured goods or as new services. This technical excellence is often quite transitory as it is easy to copy and there is little loyalty in today’s markets. For example, the IT industry is a clear demonstration of the short life of a product, most of which are superseded within six months of launch; the automotive industry has planned obsolescence with new models introduced every two years and music has moved from vinyl to download in a relatively short space of time.

Intangible value may be expressed as potential value (the expectation of a share or dividend which might increase in worth¹⁸) or as brand value (the emotion and expectation that attaches to a particular organisation or logo¹⁹). Share valuation is an unpredictable activity which leads to dramatic swings with huge gains and losses; and the brand itself can be quite short-lived – what happened to Watney’s Red Barrel, Ogden’s St. Bruno, Rinso or Idris? Even Cadbury – a well respected brand name – is now being diluted after the taken over, and risks being forgotten.

¹⁷ See Raymond Baker, *Capitalism’s Achilles Heel*, ISBN 0-471-64488-9

¹⁸ Exacerbated by suspicions of manipulation coupled with the herd instinct (see *The Wisdom of Crowds*, James Surowiecki ISBN 0-349-11605-9; but express the idea in a negative setting)

¹⁹ “A brand franchise is the very stuff of the brand. It is the unique sum of its taste and texture, flavour and smell, appearance and associations. A strong brand franchise reassures, gives confidence and like an old friend, promises the certainty of pleasure. From all this comes the probability of long-term profits” Ken Dixon, ex CEO of Rowntree Mackintosh

Summarising Culture

Culture has a long-term impact and, like value, may be expressed as tangible or as intangible. A culture is maintained by investment in the fabric of society which is appropriate to the day and yet encourages the growth and development that characterises a vibrant society.

The tangible legacy that may be expressed as infrastructure, architecture and public spaces & buildings – elements that have a long life, reflect the past, are useful in the present and provide a foundation for the future.

The intangible legacy develops the community and builds on accumulated experience and past investment. It continues to evolve and look to the future; it may be expressed in learning, communication and the freedom to be.

The interrelationships are shown below as a summary of the complete cycle at [figure 4](#)

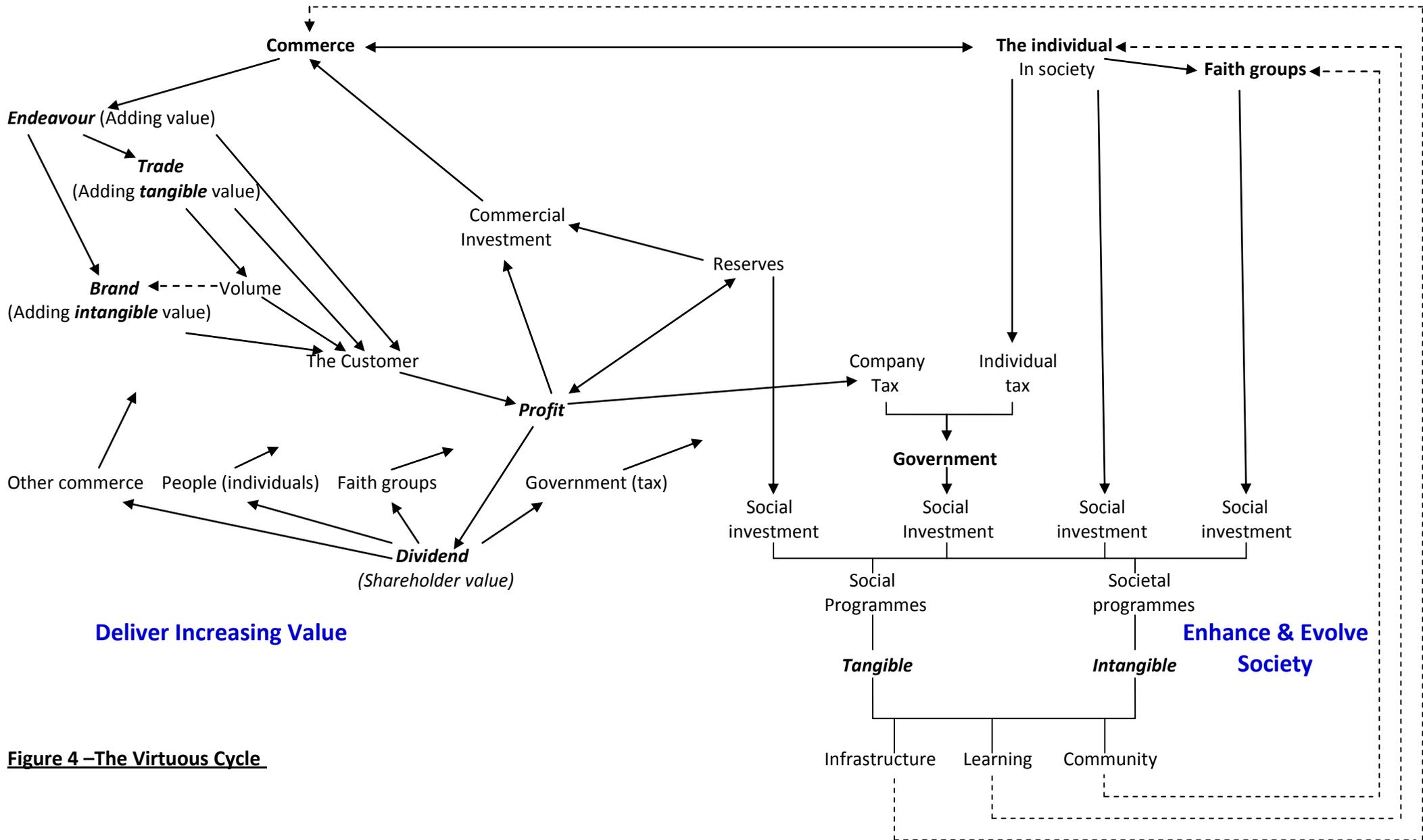


Figure 4 –The Virtuous Cycle

Discussion

From the comparisons above commerce does little to meet human needs directly; but as we saw earlier, commerce feeds society through the governmental management of taxation and investment in projects that are inappropriate to a commercial venture – hospitals, schools etc.

Others invest in society directly – philanthropists, philanthropic organisations and faith groups. Alongside government, each plays a part and the over-expectation or underperformance of any one of these parties significantly weakens the structure of, and opportunities for, society.

Investment in society doesn't have to be just financial; the donation of time, skills or expertise all play a part in building, maintaining and developing society for the good of all.

Society, on the other hand, meets the range of human needs, provides a place that is desirable to be and evolves as needs change, become fulfilled or get more complex and demanding.

If government fails to invest in society then many of the needs will not be met in full which leads, in turn, to dissatisfaction and disassociation.

Government is pivotal to maintain the dynamic of value generation and cultural investment, yet risks being buried in its own self-serving inertia – looking in, rarely looking out.

There appears to be a good case to re-examine the entire financial/governmental/human interplay and, if the journeys described above are accepted, there are enough touch-points to direct and support positive intervention.

Steve Mullins

December 2010

Appendix. Manfred A Max-Neef's Table of Needs and Satisfiers

Needs according to axiological categories	Needs according to existential categories			
	BEING	HAVING	DOING	INTERACTING
SUBSISTENCE	1 Physical health, mental health, equilibrium, sense of humour, adaptability	2 Food, shelter, work	3 Food, procreate, rest, work	4 Living environment, social setting
PROTECTION	5 Care, adaptability, autonomy, equilibrium, solidarity	6 Insurance systems, savings, social security, health systems, rights, family, work	7 Cooperate, prevent, plan, take care of, cure, help	8 Living space, social environment, dwelling
AFFECTION	9 Self-esteem, solidarity, respect, tolerance, generosity, receptiveness, passion, determination, sensuality, sense of humour	10 Friendships, family, partnerships, relationships with nature	11 Make love, caress, express emotions, share, take care of, cultivate, appreciate	12 Privacy, intimacy, home, space of togetherness
UNDERSTANDING	13 Critical conscience, receptiveness, curiosity, astonishment, discipline, intuition, rationality	14 Literature, teachers, method, educational policies, communication policies	15 Investigate, study, experiment, educate, analyse, meditate	16 Settings of formative interaction, schools, universities, academies, groups, communities, family
PARTICIPATION	17 Adaptability, receptiveness, solidarity, willingness, determination, dedication, respect, passion, sense of humour	18 Rights, responsibilities, duties, privileges, work	19 Become affiliated, co-operate, propose, share, dissent, obey, interact, agree on, express opinions	20 Settings of participative interaction, parties, associations, churches, communities, neighbourhoods, families
IDLENESS	21 Curiosity, receptiveness, imagination, recklessness, sense of humour, tranquillity, sensuality	22 Games, spectacles, clubs, parties, peace of mind	23 Daydream, brood, dream, recall old times, give way to fantasies, remember, relax, have fun, play	24 Privacy, intimacy, spaces of closeness, free time, surroundings, landscapes
CREATION	25 Passion, determination, intuition, imagination, boldness, rationality, autonomy	26 Abilities, skills, method, work	27 Work, invent, build, design, compose, interpret	28 Productive and feedback settings, workshops, cultural groups, audiences, spaces for expression, temporal freedom
IDENTITY	29 Sense of belonging, consistency, differentiation, self-esteem, assertiveness	30 Symbiosis, language, religion, habits, customs, reference groups, sexuality, values, norms, historic memory, work	31 Commit oneself, integrate oneself, confront, decide on, get to know oneself, recognise oneself, actualise oneself, grow	32 Social rhythms, everyday settings, settings which one belongs to, maturation stages
FREEDOM	33 Autonomy, self-esteem, determination, passion, assertiveness, open-mindedness, boldness, rebelliousness, tolerance	34 Equal rights	35 Dissent, choose, be different from, run risks, develop awareness, commit oneself, disobey	36 Temporal/special plasticity