Accounting for A Change

By Dr. David Martin
Unlike the movies where you don’t know whether there’s going to be a sequel until the final minutes when you groan as you see Sherlock and Watson get a clue for Moriarty’s next shenanigans, I’m telling you, there are going to be seven posts in a series. This gives you the convenience of reading it all in late September or gives you clarity on when this series of ideas will end. You’re welcome.

We’ve come to the end of balance sheet accounting. The high priests of divination (a.k.a. rating agencies) have just been put on notice of their obsolescence in the recent financial reform legislation signed into law by President Obama. Like any other dinosaur, these now dead behemoths will swing their mighty tails around and do a lot of damage but, the good news is that they will soon be fossilized into the mud of the greed and corruption they served. While they won’t serve the criminal penalties for the theft of wealth they aided, we’ll all be better for their extinction.

More importantly, we now have an opportunity to take out a clean sheet and see if we’ve ever gotten accounting right. Sure, some of the most forward thinking businesses and financial interests realized that social values should be “counted” leading to double bottom line reporting (a very good impulse). While there were those companies for whom this was a market charade, many creative people have developed great insights in quantifying dimensions of value.

For many years, we’ve been using a model called Integral Accounting for the enterprises that I’ve started. Each week for the next six weeks, I will be providing some details on the six core value sources that we measure, invest, and steward. These include:
- **Commodity** – elements present in communities which, through cultivation, production, or value-add, can be used to generate means of social or commercial engagement. These include those things that, like potential energy, can be used or transformed to add utility, value or exchange but in whose natural or unaltered state preserve equal capacity for use and value to anyone (think of them as the ingredients that can be assembled for supporting life, enterprise, and exchange);
- **Custom & Culture** – practices and expressions of individual or community held values and traditions which create a context for social interactions. This include expressions of
social values, priorities and memes that may be shared or expressed in solitude, gatherings, inter-personal interactions, or communities and may take the form of art, music, literature, aesthetics, kinesthetics, or other modes;

- **Knowledge** – information and experiential awareness which can be transmitted through language, art, or other expressions. This includes the acquisition and transfer of information and awareness in a mode that can stimulate perpetuation or expansion of understanding and creativity;

- **Money** – a mode of transmitting and recognizing value exchange using physical or virtual surrogates including currency, systems of credit and barter and engaging any artifact constituting a consensus of recognized value exchange which, itself, is devoid of the value it represents;

- **Technology** – artifacts or schemes by which value-added experiences and production can be effectuated including any thing, action, or utility which allows for the manifestation of spatially and temporally defined tangible or intangible artifacts or events; and

- **Well-being** – the capacity for any person or ecosystem to function at their optimal level where conditions are suitable for a person to be at liberty to fully engage in any activity or social enterprise entirely of their choosing as and when they so choose.

In every enterprise interaction, we explicitly assess ecosystems for the existence of these value sources, seek to understand community values attendant thereto, and organize our endeavors to optimize all values for balanced value wealth recognition.

This preceding paragraph, even as I write it and re-read it, sounds interesting but seems locked in theory. So, let me try to give you this same information in a story.

My mother is the daughter of a woman who, among other things, was an avid naturalist. Trees, shrubs, and orchids weren’t anonymous plants, but were imbued with Latin names, were known by their seasonal flowering, and were cared for with an eye for optimizing their lives. So, not by accident, my mom loves, and instilled in us, her love of the natural world.

We love to take family trips to the beach (*custom & culture*). When we are at the beach, the sunrise often sees my mom walking down miles of sand (*well-being*) looking for the beautiful (*knowledge*) shells (*commodity*). As she walks along, her eyes are scanning the remnants of the night’s high tide (*technology*) for whatever washed ashore. If you watch from the balcony, you see her glancing out into the water and, for particularly valuable specimens (*money*), she’ll hike up her skirt or pants and wade into the frigid water to harvest a particularly remarkable find. When her walk has ended, she’ll line up her morning’s haul (*wealth*) and make sure that the grandchildren know about the difference between a right-handed or left-handed whelk (*knowledge*). [*Note to the reader: I still haven’t figured out where whelks have hands but that’s because I’m not as smart as my mom!*]

There are mornings, however, when the sea has been stingy. “There weren’t any shells out this morning,” she’ll report when coming back to the house. Ironically, armed with breakfast, I’ll walk out to the beach a few hours later and see millions of shells. I see
abundance where my mom reported scarcity. Is it truly the case that she and I saw a different absolute condition? For a woman who could find ways to feed a multitude from what seemed to be quite little, did she not see abundance? Now, who has the correct assessment? Let’s explore this case a bit further to understand the importance of integral accounting.

My mom isn’t looking for shells (the housing artifact of a mollusk). She’s looking for shells that are peculiarly unique and rare. If we saw the beach littered with shells but heard her report of scarcity, we’d think she’s crazy. [Note to the reader: I’m reserving all rights on this point, but stay with me.] But our failure to communicate would be based on inadequate clarity of understanding value. My mom’s custom & culture, knowledge, and sense of value artifact (money) teaches her what has value in her context. Not unlike other human enterprise, something like this simple example illustrates a systemic failure in ecosystem and social stewardship based on a failure to overtly identify, acknowledge and be accountable for a complete situational analysis. As I reflect on the broader ecosystem of this example, it strikes me that a day without beautiful rare shells could actually be the BEST day for people like my mom. After all, if the shells aren’t on the shore, they’re doing what they’re made to do – namely housing the animal who is busily living and creating an artifact that one day will find its way to her mantle (get the biology joke here? – insert groan here).

The same beach on the same morning could represent a windfall for communities in Papua New Guinea who would love to use the abundant, small white shells which, when placed on a strand of reed, serve to represent honor exchanges at social rituals. Can you imagine an accounting of ecosystems where one would include a measurement of those things that could have no value to the observer but would be identified and reported for the benefit of those for whom value could be perceived? I can and we do.

Now I’ve started this series with a simple example but one that holds great complexity if you take it under serious reflection. While we have chosen the convention of six value sources, I would in no way suggest that our model is exhaustive. That said, I would welcome you to pick a life endeavor this week – business, social, or otherwise – and experiment with the process I used in this post. Reflect on what you’re doing (or have done) and start explicitly identifying all of the sources of value in your ecosystem. Beyond the creativity of thinking in a new way, the one thing I can guarantee is that you’ll feel a bit more wealthy when you see how much abundance surrounds you. And then, do it again, and again, and again….
Under the sun of the Mayan Riviera I completed reading Spencer Wells’ *Pandora’s Seed: The Unforeseen Cost of Civilization*. I suppose that it was as fitting a place as any to read this accessible account of our species’ progression towards an accelerating evolutionary cul-de-sac where our grossly oversized appetites to consume will either engulf or transform us. Should you wish to probe more deeply into the linguistic and behavioral intellectual paralysis that has led us so completely into our consumer hypnosis, I recommend both the book and the venue. Wells provides an ideal point of departure for this week’s Integral Accounting post on Commodity because his central ethno-anthropological thesis – quite compellingly argued – includes the assumption that homo sapiens have “civilized” over the passage of time. However, as I will point out, I don’t find the evidence compelling. Far from self-congratulatory terms like innovation, civilization, and development, I would argue that we’ve become far less creative than our forbearers, less willing to share for the common good, and far more susceptible to single point failures leading to a renewed urgency to rethink how we account for life and the systems on which it hinges.

Commodity is a term that, in ordinary use, refers to substances which have non-discriminatory intrinsic value (meaning that their value exists by virtue of their very existence without any qualitative differential across markets) and can be used or distributed equally by, and between suppliers and consumers. A simpler understanding of the common use of the term may be the concept of ingredients for baking. Flour and sugar (both derived from “commodities” and both “commodities”) can, in the right hands become a cake or chocolate cookies. However, in the magical hands of my wife, Colleen, they can become the essential elements in the most transcendent bread this world’s ever smelled or tasted.

Not surprisingly, the term commodity shares its linguistic roots with the concept of commons. However, our understanding of commodity has undergone persistent enclosure
in what James Quilligan frequently critiques as antithetical to ideal social organizing principles. After all, in the Magna Carta’s companion declaration, the Charter of the Forests, felled wood, nuts for foraging and other sources of livelihood were essential non-discriminatory resources.

We need look no further than our electricity addiction (or petroleum, as the same argument will hold) to see how perverted our understanding of commodity has become. As heirs to Edison and Westinghouse’s legacies, humans have ripped mountains apart, ravaged forests, and fouled rivers, lakes and oceans in pursuit of copper. Now, we’ve done this so that we can extract the metal, stretch it into long, fine strings and twist it or coil it to feed society’s most ubiquitous drug into our shared addiction. And despite over 100 years of mining ore from the earth (and calling it a commodity), we have failed, in this recyclable metal, to realize that we’ve taken out enough. You may be interested in knowing that, according to the USGS 2007 Minerals Yearbook, consumers recycle less that 25% of metals with the exception of lead. We throw away the vast majority of our aluminum, copper, iron, steel, magnesium, nickel, tin, titanium and zinc. Our current economic system is built on the immoral and genocidal belief that it’s more desirable to take ore out of the ground (at great environmental degradation cost and human displacement cost), transport it over great distances (polluting all the way), smelt and refine it (once again at great polluting cost), fabricate it into wire (at great polluting cost) and then integrate it into disposable products which we will bury on average after 7-10 years (the terminal life of most electrical appliances) than it would be to actually design products whose motors, compressors and conductors could be entirely reused for the life of a person (or many generations).

We tolerate this delusion because our religions, governments and economic propagandists (a.k.a. – most of the world’s business schools) cannot fathom that the Earth is NOT ours and is NOT free. Somewhere between days two and six of Biblical creation, humans enshrined themselves as the pinnacle of “lordship” over the Earth. And since our sacred texts all say that “God said so”, we blindly go along with the madness.

In Integral Accounting, our worldview around the elements all change. Let’s start with the basics. First, it’s all here. All the air, water, calories, energy, shelter – all are here and all exist in sufficient abundance to care for life on Earth. Second, it’s all going to stay here. If we decide to burn carbon-based life residue, for example, we’re not getting rid of it. We’re just changing its form into something that is choking our atmosphere rather than percolating under our land and seas. If we over-produce and over-consume starches, our bodies will do what they do and make fat. I guess the silver (or more appropriately, greasy golden) lining here is that we’re closer to biodiesel with every passing sedentary day. Third, the better we figure out suitable distribution of access and use, the better our chances at becoming a persistent species.

And the elements do not merely have value in the industrious hands of humans. Remember that soil, water, and air all rely on these shared resources. Plants, animals, and living systems we don’t yet characterize and understand all rely on these same elements. When we take a metal from the ground, have we considered what bacterium was being
held in check based on, for example the bactericidal properties of silver? Is it possible
that by preferring an ever narrower list of foods, metals, and chemicals upon which we
rely, we endanger our species to susceptibility to disease and extinction unthinkable in
our hunting and gathering past? As we see throughout history that dense urbanization and
its associated industrial food and water infrastructure preceded “mysterious” mass
extinction events common in the Americas and Eurasia, is it possible that keeping
maximum diversity in our appreciation of commodity is actually the only path to avoid a
similar outcome?

Commodity reductionism – a pseudo-efficiency required only to maintain wealth and
power asymmetries created by the industrial mercantile system that we currently find
prevailing – is the proximate cause of most of our armed conflicts on Earth and reinforces
unspeakable atrocities. Commodity diversity is a requisite for human persistence. “Too
Big To Fail” – a phrase lately applied to the financial industry is a greater threat when it
applies to elements perceived to be essential for preservation of a way of life. Go online
and look how boring we’ve become. Look at the commodities markets and puzzle over
why We The People of Planet Earth seem to care about silver, gold, titanium, copper,
nickel, aluminum, orange juice, cocoa, coffee, sugar, soybeans, beef, pork, corn, wheat,
and rice? While I’m only slightly over-simplifying to make my point, I do know that
we’ve predisposed ourselves to single-point failures in a world of abundance and we need
to have our heads examined.

Let me end with how we put Commodity Integral Accounting to use. When I teach
people about Integral Accounting principles, one of the first exercises I have them do is
walk outside and count everything they see in instances of greater than six. These are the
local abundant commodities resident in an ecosystem. Rather than seeing a place for what
it’s missing, see the place for what it is. Immediately, think about what you could do if
you had a lot of that thing. What kind of systems would you build or create to expand
access to and use of this abundance if you chose to do so? What community would you
need to engage? What would be the full ecosystem consequence of such use? What
information would you still need to answer these questions?

So, here goes. When you fly into Dalanzadgad, South Gobi Province, Mongolia, at the
right time of day, you notice that the municipal landfill is highly reflective. Like many
other landfills in Mongolia, there is an abundance of one item – vodka bottles. A legacy
of the grain alcohol industrial production accompanying the Soviet era, the abundance of
glass is staggering. In this desert, water and food are appreciated for their intrinsic value.
However, when a Korean development agency decided to set up greenhouses in this land
prone to violent wind and sandstorms, they used metal tubing and plastic coverings.
Sheets of flimsy plastic to protect vegetables from harsh cold, to preserve moisture during
arid months without rain, and to, well, litter the landscape in the next big wind. Integral
Accounting would see another path. Why not use the vodka bottles as building materials
for greenhouses? By using the bottles as glass bricks, one could easily create a vapor and
thermal barrier that would: a) withstand the wind and sandstorms; b) insulate the interior
for optimal growing seasons; and c) solve a municipal solid waste problem. Oh, and by
the way, local communities could grow their own organic produce without relying on
expensive overland shipping from China. Given that the Oyu Tolgoi gold and copper mine – the potentially largest mineral reserves of both on Earth – is estimated to bring up to 30,000 new hungry mouths to this parched region, wouldn’t such an approach make economic sense?

Of course it would. When it comes to our view of commodity, it seems that we’d be well served if we could begin to migrate from our linear view of extractor – processor – consumer – disposer to a practice of optimized repurposing. This transition opens up countless opportunities for perpetual creativity which can be done in harmony with community in the context of next week’s post on custom and culture.
This Wednesday, August 11, 2010 as many as one sixth of the world’s population will engage in or contemplate the fast of Ramadan. For the next thirty days – from the crescent moon to the next crescent moon – many will neither eat nor drink during the hours of light. While many of us would think of a thirty day fast as unimaginable, it is interesting to note that the admonition to fast was not principally to reduce consumption (although it has that laudable effect). Rather, the teaching from Prophet Mohammed 

\textit{PBUH} \textit{was to have a yearly reminder of distinguishing right from wrong – a very tangible reinforcement of the value of discernment.}

\textit{... and eat and drink until the white thread becomes distinct to you from the black thread of the dawn. Then completely observe the fast until night. Qur’an 2:187}

I took my first journey through this fast at the invitation of my dear friend, Moustapha Sarhank. My experience entering into Ramadan in 2006 was far from pious. I was quite fascinated by the concept of a month-long fast and I wanted to experience it. I viewed fasting for a month the way I view training for a sporting event – it is an interesting challenge and it certainly won’t hurt me. Thirty days later, I had been significantly impacted – experiencing the unconsidered centrality of food in our culture, confronting emotional and psychological personality traits I did not know I had, and deepening my appreciation for the wisdom of practices quite foreign to me. Little did I know that sharing this experience would forge one of my most cherished friendships, open up countless relationships throughout the world, and provide deep inspiration for much of our financial innovations ever since.

Custom and Culture, the second pillars of Integral Accounting are filled with explicit and implicit value. In dismissive contempt, many mainstream economists view these factors as “soft” or “subjective” and therefore unmeasurable or unreliable. When Thomas Aquinas made his statement, 

\textit{Veritas est adaequatio rei et intellectus}, (Truth is the [correspondence or agreement] between things and the intellect), he was buttressing the bridge between things and perception that had been spanned by Pythagoras almost 1800
years earlier. In fact, our modern resistance to include custom and culture in economic metrics is based on our consensus dogma (which would make Pythagoras circumspect) that numbers are a superior reflection of truth than any other expression.

We encounter custom and culture implicitly every day. Whether it is the U.S. trade embargo on Cuba or the Islamic Republic of Iran (which directly penalize would be producers, consumers and collaborators over divergent belief systems); the consensus illusion that human efforts need to be organized in a “corporation” before ideas and services can flow between parties with accountability (a threat to the rising popularity of “crowd-sourcing” in which idea ownership becomes blurry); or, Delta Airlines’ unwillingness to sell M&Ms to me for cash because everyone uses credit and debit cards and they don’t accept cash (where’s the class action Interstate Commerce legal challenge to forcing airline customers into the arms of the credit card monopoly here?), at every turn, we alter open, free, and fair value exchange with custom and culture all the time and it really matters.

Now, I know, about this time, those of you familiar with my work are wondering, “What’s going on here? I thought that I was going to read about fire dances in the Pacific, a Kenyan choir belting out South Africa’s national anthem, Nkosi Sikelel’i Afrika, and the monetary reallocation via philanthropy appealing to a moral need to eliminate poverty.” While all of these, and thousands of other values are all important, I wanted to make sure that we realize that custom and culture extracts enormous frictional costs in the most unevolved practices of our current economic system.

Custom and Culture play an inextricable role in the economy. Let me review a couple explicit examples.

Language – for time immemorial those who had the ability to communicate between cultures, regardless of the social state, obtained explicit places of social value. Ask any U.S. CEO the value of Mandarin or Portuguese and you’ll be met with an effusive tale of how important the Chinese and Brazilian markets are to business. Ask them the same question in Mandarin or Portuguese and most will look like they’re hopelessly lost. When, in contemporary business plans, did you see a line item for Rosetta Stone® as a critical success factor? Why not?

Religion – Plan a meeting to discuss financing at 1pm with Sunni Muslims and see how far your relationship goes from there. While you’re ready to talk about financing a desalination project, they’re praying. You’re both offended and the relationship suffers.

Recreation – Since the LA Olympic Games in 1984 and evidenced in the 2004 Greek Games, the 2008 Beijing Olympics, and the recent World Cup in South Africa, linking recreation with economics is assumed to be as commonplace as breathing. Mind you, drinking Coke® isn’t going to get you on the track or in the pool but billions of dollars (and lower centers of gravity in millions of consumers later), we are becoming candidates for the day when sumo becomes an Olympic sport.
Political Ideology – We go to war, we say, to promote democracy and freedom. However, if you ever took a look at the direct and indirect spending of the U.S. government on the war – both on the value of defense contracting to the total GDP and the reliance that companies like IBM, Oracle, L3, SAIC, KBR, Booz Allen Hamilton (in its new, renamed incarnations), CSC, Dell, HP, Accenture, SRA as ancillary defense support contractors have on their government contracts arising from “homeland security” – you would realize that the U.S. has no economic plan that is not heavily reliant on conflict. We actually go to war to control resources and maintain employment and we justify it with “freedom” and “democracy” – custom and culture.

Tourism – In many countries on Earth, the largest source of foreign exchange is tourism. As humans, we don’t merely desire an experience – we desire experiences in venues. I was at a beach resort in Cancun Mexico two weeks ago. On every day of the week I was there, I did something only I would do. I went to the beach and counted how many empty chairs were there and then went to the pool and did the same. The conclusion that I came to was that humans are ridiculous. Eighty-five percent of the beach chairs were empty; while less than five percent of the pool chairs had vacancy. And, mind you, there were over 20 times more pool chairs than beach chairs. So, we fly an average of 2,000 miles to a destination by a beautiful beach to sit… AT THE POOL! What? No, we’re actually gaining something that the local community pool doesn’t offer – culture. And so, madness and all, we still do it.

So, how do you go about adding custom and culture into Integral Accounting? Actually, this one’s pretty easy. Think about the concept of frictional cost. Identify those elements in an interaction which are essential to get the transaction done. Do you need a legal framework (contract)? Do you need to communicate (language)? Do you need a corporate license (government-sanctioned judiciary)? Do you need financing or performance guarantees (trust)? Once you identify all the elements required for the interaction, then consider what resources could be added to lower your execution risk and increase the fluidity with which value can be exchanged. The more you can align your activities with the context in which individuals and communities are organized in your field of operations, the greater your Integral Return.

So, on this eve of Ramadan, let’s all consider our ability to distinguish between right and wrong – the white and black thread. By integrating custom and culture into our understanding of value and its exchange, we will open ourselves to the possibility that we’ve depersonalized our view of things and, in so doing, lost our understanding of Aquinas’ notion of Truth. The more we consider this, the more we’ll realize that we simply don’t have all the information we need to engage in this type of consideration. This means we need better access to knowledge… the next leg of Integral Accounting and next week’s post. Until then, Ramadan Mubarak!
When the late Lory Roston introduced me to the work of Gregory Bateson on a cold afternoon in an office in the Trinity Building on Broadway and Wall St in New York, I had no concept of the gravity of the moment. As he sat at the end of the conference room table and adjusted his hearing aid, he looked at me and said, “Young man, the last time I was this fascinated with listening to someone was when I listened to Gregory Bateson.” I knew neither Lory nor Gregory. And, for that matter, as he was transfixed with his hearing aid for a good five minutes, I didn’t know how much of what I had said he had actually heard. However, I decided to glance at the book he rifled from his tattered briefcase and, in a few minutes with *Steps to an Ecology of the Mind* I was hooked. What followed was my voracious pursuit and contemplation of every book, article and lecture of Bateson’s I could find. Adding to the irony of Mr. Roston’s linkage was the fact that, like Bateson, much of my deepened consideration on values and epistemology was triggered by the exact same tribe in East New Britain, Papua New Guinea – interactions separated by almost 80 years!

Bateson presents one of the most articulate arguments for an integral view of knowledge – one that has the courage to challenge Occidental dogma emerging from Plato’s notion that knowledge represents a justification-based evidentiary belief. Challenging the Aristotelian notion that knowledge requires witnessed evidence of cause and effect leading to certitude, Bateson promotes the integration of somatic observation and experience with qualitative comparisons of ecosystem level symmetries and asymmetries. His concept of what he characterized as adductive scientific methodology to understand “a difference which makes a difference” encourages an expanding, rather than reductionist, view of knowledge. In Bateson’s view, knowledge was an expanding, abundant, boundless journey, not a consensus dogma.

I’m entertained by those who suggest that we live in a “Knowledge Economy”. I find this self-aggrandizing hubris oxymoronic and delusional. As the recent equity, debt and government financial implosions have shown, “experts” had no clue what the heck was
going wrong before something went terribly wrong. And those who were hopelessly clueless on the way into the storm are now equally clueless on determining whether we’re getting better (though we’re pretty sure that we are not unless we’re an over-caffeinated promoter on CNBC in which case all we do is yell louder). What we do know with absolute confidence is that GREED uses KNOWLEDGE ASSYMETRY to take money from gullible would-be lottery winners and appropriates it to those who can avoid accountability. The very notion that propaganda has been labeled “Knowledge” and that “financial experts” are merely those who serve the thieves most efficiently shows that there is no responsible “management of the household” – the literal meaning of “economy”. This week’s Federal Reserve assessment is the punctuation in the obituary on the Knowledge Economy. We will now use our economy’s future to purchase toxic waste so that we can share the ownership of the lack of judgment of the few!

Knowledge is a vital component to Integral Accounting. What has been passed off as “knowledge” for the past thirty years has too often been willful deceit. Let me review a few examples. Since the Reagan Administration’s trade war with Japan, we were told that we were the most innovative country on Earth. We had to be told that because, regrettably, Japan was clobbering us at a game we thought we dominated. With cars, semiconductors, electronics, and certain energy technologies, our self reported superiority was being so thoroughly trumped that the U.S. had to waive it’s own anti-trust and collusion laws to regain a “competitive” position in fields that we knew we owned. While American institutions of higher learning boasted many of the world’s pre-eminent scientists and scholars, the students in the most sophisticated classrooms and labs were not American. And, for those of you who haven’t been around higher education lately, it’s graduate students who are frequently the source of creativity, not their tenured advisors. So, when countries like Korea, China, Taiwan, Vietnam, and India bring their students home – accelerated in our anti-immigrant post 9/11 world – guess what! They take their knowledge and creativity home with them. And when U.S. and European corporations told their investors that out-sourcing would drive profitability, they assiduously avoided pointing out that, together with frequent compulsory technology transfer, what they were really doing was selling their future for short term gains.

Doubt that knowledge has explicit and implicit, quantifiable value? Look at where economies are growing and look at where education expenditure growth outpaced military and health care expenditures. These truths are self-evident.

So far, if you’re reading this in the U.S., you may be feeling pretty bummed and if you’re reading this in historically marginalized countries, you may be pretty excited. Not so fast. One of the biggest mistakes in the pursuit of knowledge is the blurring of the line between EDUCATION and TRAINING. As we state in our Integral Accounting definition of Knowledge (“information and experiential awareness which can be transmitted”) the concept requires the capacity to transform individual awareness into a transmittable form. The transmission may be evidenced in behavior, communication, art, kinesthetics, collaboration, or technology. Overlooking the sense of network synergies and collaborative values arising from inter-relational cooperation, many countries have focused on training to compete rather than educating to collaborate. Not surprisingly,
industrial property artifacts like patents and trade-secrets are being foolishly embraced by countries precisely at the same time that these systems have proven to be obstacles for development in their countries of origin. China and India are carelessly adopting innovation Cold War practices of encouraging isolation rather than collaboration. This behavior is antithetical to knowledge. Awareness that is hidden and enclosed for short-term, proprietary gain is not knowledge. Furthermore, in a world where trusted relationships form a critical support mechanism in uncertain times, protectionism and isolation is shortsighted.

So, with reckless abandon, I am going to dive into a multi-millennial debate over Knowledge by proposing that, the reason why we’ve been locked in our confusion over knowledge and its essence is because we’ve seen it as an end – not a utility. We view it as an object or ideal to attain rather than a vehicle through which we manifest our capacity to integrate, critique, and synthesize. Allow me to explain with a deeply personal experience.

In the Spring of 1988, I was a competitive track athlete at Goshen College. At the first outdoor meet of the season, I jumped into the long-jump pit at Huntington College and gained knowledge. I learned that the grounds keepers had not dug into the sand to find that there was ice beneath the surface. Upon landing, both of my legs ripped at the knees placing my feet remarkably close to my buttocks in a most hideous and contorted way. Shortly thereafter, I was informed that I would probably never walk again. I went from athlete to invalid in an instant. While 22 years of pain have been my constant companion, I did regain the ability to walk, run, bike, and engage in activities that knowledgeable experts thought impossible. However, this is not my example.

While I was in the wheelchair, my greatest emotional trauma was the realization that I may possibly never have the opportunity to engage in a face-to-face conversation with anyone again. Those who stand and socialize have no concept of the distance felt by those who involuntarily sit out of eyesight. For months I pleaded with the universe for someone to actually kneel down and talk to me eye-to-eye. Save my lovely bride and my mother, no one did.

In October 2009, I was in Brazil and met my soon-to-be-friend Marcelo Colonno. Marcelo lost use of his legs in a car accident and, at our first meeting, I was visited by the spirit of my pleading 21 years earlier. Despite excruciating pain, I walked up to him before either of us knew one another, knelt down and introduced myself. He and I shared a wonderful conversation and in an instant forged a bond which has already had a ripple effect altering the economic course of Brazil.

The reason why I share this story with you is to demonstrate what I mean when I talk about Knowledge as the evidence of integration, information, synthesis of information and experiential awareness. I didn’t “have” knowledge. I evidenced knowledge and, in so doing, shared an evident knowledge with Marcelo. In short, Knowledge, like potential energy, is an option which only exists when evidenced. While the Greeks struggled to apologize for their circular arguments which attempted to separate knowledge from self-
confirmatory belief (unsuccessfully) and while others have struggled mightily since to do the same, we are lost if we seek to attain something that can only be manifest in its sharing. In Integral Accounting, Knowledge is the mutually recognized capacity to communicate “differences which make a difference” in an ecosystem. Bateson got it as close as anyone and, thanks to my late friend, Lory Roston, I have better tools to share knowledge. I trust that in the coming week, you take a moment to transform your information and experiential awareness into an episode of communication with another. In so doing you will, for a moment expand the universe of knowledge and make the world a better place.
Integral Accounting: Money — Part 5 of 7

...modes of transmitting and recognizing value exchange using physical and virtual surrogates including currency, systems of credit and barter

In response to the twentieth century’s first United States’ balance of payments and trade deficit and in recognition of the international market’s loss of confidence in the U.S. economy and dollar, the Nixon Administration closed the gold window 29 years ago this past week. This anniversary slipped by with few noticing that the Federal Reserve, the control room for our free-floating dollar, was without even the crude tools Nixon used in August of 1971. In what amounts to the ultimate “dog ate my homework” excuses, the floating dollar anniversary was marked by Ben Bernanke and his henchpersons (yes, I’m politically correct) trying to serve cocktails to the passengers on the Titanic (a.k.a. spinning their nonsense on the Sunday morning talk shows). Our employment is diving into a yawning chasm too wide for our “safety nets”. Our debt is eclipsing our aspirational GDP. Our financial markets are firmly in the control of dueling quant models which are automatically trading in a macabre zombie dance of the dead.

Despite the near universal public acquiescence to the necessity of money, you’d be hard pressed to find a single person who understands it. M0, M1, M2, and M3 (though M3 was demoted on March 23, 2006 – like Pluto from the planetary fraternity – as not being relevant enough to measure) all form an intricate web of illusory value which the average person doesn’t take the time or effort to comprehend. Ironically, like the termination of the gold standard, the Fed’s decision to cease reporting M3 rendered the U.S. government’s counterparty risk invisible to all. So, the bottom line is we neither understand money and its flow nor do we even know how decoupled or leveraged it is from anything we might consider a metric of value. Yet the band plays on as “Nearer My God To Thee” mixes with the chorus of those slipping into the icy water.

There is a piece of art work hanging in an executive conference room in Salt Lake City which is shown in the image beside this post. The image is the outcome of the 1959 investigation by Congress into the interlocking directors of the U.S. financial system. It’s
The connection between our monetary system and mortality treads on a number of toes which don’t like to be trodden. In light of that, I want to simply state that, in a fractional reserve system such as the one we have in place today, an unspoken element of the calculus stabilizing the flow of money to support the economic illusion is the actuarial tables of death. The more consumers rely on debt – for things ranging from housing to cars to clothing to entertainment – the more the system is dependent on keeping your actuarial death well managed. As I have written before, the centrality of insurance companies to our economy totally justifies the government’s ludicrous intervention to save AIG and others. Had they not kept the insurance industry and its counter-parties afloat, it would have been the whole economy, not just the insurance and banking sector that would have evaporated. And, what they did do didn’t solve the problem. It merely delayed the date with the Ghost of Christmas Future.

You see, the primary motivation for purchasing life insurance is to insure that, on your death your debt is discharged. Sold as a benefit to the grieving family, what this really is is a utility to support fractional reserve monetary dynamics. Your insurance policy allows you to release money into the system from beyond the grave. As your last consumptive
act, before the worms get you, you serve a great fractional reserve purpose of redistributing money into circulation. Thank you for dying! In the image below, you can see that the largest growth in life insurance sales and use coincides with, you guessed it, the Fed...

Figure 1: Life Insurance Organizations 1810-1920

From: http://eh.net/encyclopedia/article/murphy.life.insurance.us

Fractional reserve based monetary systems consume you with debt, indenture you for your “productive life” and then deeply appreciate your demise – particularly if you don’t draw too much on your pensions, thank you very much. I’m reminded of Dickens’ line for Scrooge in A Christmas Carol, that the poor should go ahead and die and “decrease the surplus population.”

So, let me be clear, I do not advocate using, being dependent on, or seeking to stabilize the current illusion of money. The system that we have is dead and its demise was wired into its birth. However, one need not throw the baby out with the bath water. Just because we don’t have a monetary system that works for all doesn’t mean that such a thing is impossible. It’s just impossible with the system currently in place.

Integrally Accounted money looks and acts differently and engenders different responses in its users. It has several key elements:

- It represents an obligation of counterparties to honor commitments
- It represents a recognition that time, materials, or services, in the moment, are inadequate to fully satisfy a value exchange so that future performance or satisfaction is required
- It represents a present subscription to participate in future fruitful production
- It represents a means of transferring value in a logistically efficient manner
- Like energy, it only has “value” in its exchange and flow
- When hoarded or restricted, it represents a measure of isolation and detachment
- It is a utility, not an artifact of success.

A simple way to think about how to become more inclusive about money is to consider the last time you thought that you’d do something “good” if you had the money to do it.
When we **stand** in the impulse of imagination, desire, or creation and **look** for a singular resource (money) and then **animate** the same with the ability to arbitrate the merits of the imaginative, desirable or creative impulse (“If it gets funded then we can….”), we are creating a subordination of our highest form of humanity (creativity) to an inanimate artifact of exchange. The most insidious part of this is that in a fractional reserve monetary system, this means that we’re really subordinating our creative impulse to those who control “legal tender”. It is therefore, no surprise, that when we are challenging the incumbency created by controllers, they delight in hearing that our dependency is on the one utility over which they have absolute control.

If, however, at the same moment of individual or collective imagination, desire or creation we look to the ecosystem in which the impulse was borne and celebrate the existence of the abundance in that moment, we have the capacity to align the impulse to its temporal and spatial genesis and with the outcomes commensurate with the deployment of present resources. If our impulse is, “Well, all I have is creativity,” then great – use that to its fullest potential. If it is “All I have is contacts,” then great – honor those and invite them into completing the first step. In short, by fully embracing the creative impulse to act and then acting in the abundance of the moment, the energy flow will begin which will take the effort in a manifestation path – at the manifestation scale – appropriate to the moment. Outcomes are measured simply by the following assessment – “Did I align all that over which I have stewardship to the impulse?” If yes and that’s the end – wonderful. No regrets. If the impulse needs other provisioning, great, those will manifest into the system in a form and time appropriate to the ecosystem. Taking account and stock of the present abundance and exercising stewardship over the same is an equipping test. If we honor the present abundance and steward it to its fullest extent, there can be no “failure” as one will have done all in their power to do.

There would be those who would advocate that we simply exclude money because the system associated with its current incarnation is too corrupt to redeem the word. To that argument I would simply encourage a more awakened perspective. Money isn’t the problem – our complicity with an illusory fractional reserve monetary system and the abuse it has wrought on our ecosystem and fellow humanity is. Practice developing alternatives – currency, vouchers, IOUs, and other utilities of exchange and see how easy a world with Integrally Accounted money can emerge. And ironically, you don’t need a monopolist-in-chief turned Ponzi-schemer-in-chief to make it work. None of us do. Including him.
It’s been years since I entered a rather non-descript Russian Orthodox church outside of Moscow with my friend from the National Academy of Sciences Alexander Dyachenko. A small choir was rehearsing for mass inside and as we entered the church, the acoustics were such that our eyes were instantly drawn upward. The sound was coming from the eyes of the icons painted high on the wall above the altar. The harmony echoing from the high stone interior hung in the air and formed an acoustic connection with the saints. Connecting across centuries, an artist had chosen to place his sacred art in a place where everyone would see it during mass. Clearly he or his patron wanted to have the music connect to deeper spiritual significance.

In its modern use the term “technology” has become synonymous with a rather minimalist set of artifacts typically animated by either electricity or combustion. Ever since the dawn our addiction to the Westinghouse-Edison heroin pulsing through every artery of modern existence, we have become more enslaved to the delusion that if it doesn’t take power, it isn’t technology. However, it’s worth noting that in our mad rush for our next iTouch or hybrid car, a more inclusive understanding of technology is essential to free ourselves from our own suicidal race to mineral and energy oblivion.

Let’s review a bit of history. Advanced civilizations before us recognized that technology involved a sense of permanence. Crushed stone and beeswax formed colorfast images that are still luminous on Egypt’s iconic temples and tombs. Kodak and HP have nothing close. The Tiwanaku in Peru built their understanding of mathematics and cosmology into their buildings and towns in a manner which our most advanced minds cannot yet decipher. No GPS-aided architect can match their topographically adjusted construction which aligns with cosmic waypoints that current astronomers can’t begin to interpret. Stylus and chisel built monuments unrivaled by any modern architecture with ornate
symbols conveying meanings long lost in our Google-based digital monotony. If we can’t find it on-line, we actually question if information even exists (certainly, if it’s not on-line, it can’t be trusted!).

In the United States, our driving impetus for technology development has been mortality. Like our addiction to immortalizing ourselves in our monetary system, our technology has, in the main, been the byproduct of military or medical expenditures. By total national expenditure, military (the funding of artifacts of death to coerce enemies into acquiescence to our world view) and medicine (the madness of trying to extend lives beyond the natural warranty of the human organism) are the largest two funding drivers of our technology addiction. It is no surprise that we are less creative and more impermanent in our technology today than our forebears. For in our current worldview, our focus is about survival – not renaissance and enlightenment.

I often challenge people in my lectures to identify any modern technology that has been INVENTED in the last 60 years. A bigger challenge is to add the caveat that the invention cannot have its roots in German innovation during the 1930’s and 40’s. Whether it’s the chemistry in medicine or the hypersonic propulsion of advanced aircraft, we’ve not engaged in much paradigm shifting awareness in our modern generation. To be clear, I try to help people understand the difference between:

**Invention** – the manifestation of a thing *ex nihilo* without analog in any other manifestation (something that our current system has not seen);

**Innovation** – the integration of existing components to address a specific context or proposed need; and

**Incrementalism** – the subtle adaptation of a thing for a particular consumer demand.

Since the bold, German-aided space race of the 1950’s and 1960’s we have seen virtually nothing but Incrementalism. IBM exists because of World War II cryptography challenges of the Japanese and Germans along with the entire computer industry. Procter & Gamble has filed patents on a detergent bubble for over 50 years so that we can launder our clothes under their patented watchful eye. Sildenafil citrate (marketed as Viagra) was developed in 1989 to treat vascular conditions, failed in its clinical trials but launched the world of erectile dysfunction obsession at the same time as diseases like malaria, cholera and countless other killers were on the rise. Ironically, the compound developed under the patenting, sex obsessed impulse of Pfizer actually has its roots to Swiss and German researchers from 1957! Welcome to modern innovation! Finding incremental market uses for 60 year old technology is fine. But don’t think for a moment that we’d know an Invention or Innovation if it bit us in the butt. Our technological hubris is built largely on our ignorance of what’s come before. Let’s face it, the RMS Titanic had more patents and innovations still in use today on board the night it sank than Apple has in its iPhone.

Adequate Integral Accounting for technology needs to be liberated from our automated, electro-combustive dependency. We believe that alternative energy doesn’t “work” because you can’t make it integrate with a grid last innovated in the 1960’s. We believe
that alternative transportation is not practical because the inhabitants would be placed at risk with our two ton steel behemoths hurtling at them at insane speeds crushing a more suitable mode of transportation and its enlightened occupants.

In short, our aspiration and acceptance of technology could be more suitably aligned with:
- those things which provide the lowest barrier to use for the highest social gain;
- those things which provide the greatest utility for the least ecosystem cost;
- those things which facilitate greater collaboration and connection with the fewest discriminatory barriers; and,
- those things which, following their current utilization have the greatest optionality for repurposing and reuse.

Let’s imagine a new world and begin building it. And if we can’t build it ourselves, let’s begin rewarding those enterprises who use an integral value system in their production. Together, we can begin a journey into our ancient future of innovation for the betterment of humanity.
Our current economic models abandoned humanity in the 18th century. While we take great consolation in the celebrated end of the trans-Atlantic slave trade we seem to conclude that slavery has been eradicated because it’s not a fixture in proximity to where we live. While we celebrate the more visible contribution of women in professional roles (now surpassing their male counterparts in absolute terms in many fields) we seem to conclude that gender discrimination is an anachronism. We don’t have our child labor sweatshops blighting our neighborhoods and pronounce public programs which will “leave no child behind.” Our multi-lateral organizations proclaim that we will “end poverty”, “empower women”, and defend the “rights of children”.

However, thinly veiled behind our proclamations is reality. When the military recruits most of its combat enlistees from economically disadvantaged communities promising a pathway to economic and educational benefits, are we really seeing free choice? When we see a world in which single mothers (a growing percentage of child care-givers) have to extend their work hours to make ends meet costing them personal and family engagements, are we really closer to a gender honoring society? When our children are fast-tracked into training and conditioning programs (marketed under the labels of head-starts) at the expense of spending time with grandparents, parents and friends, are they more likely to be equipped to choose lives of personal and community citizenship? In a world where philanthropy and multi-lateral non-governmental organizations rely on the largesse of those who gained their wealth through exploitative consumption, are we closer to ending poverty, oppression and injustice or are we placating what’s left of a conscience?

If you are reading this blog (first of all, congratulations for sticking with the series) I’ve
got some challenging news for you. If you share an Integral Accounting world view and seek to live in a more rational human community, you will likely need to take stock of where you are in the system and get ready for some adjustments. If we really want everyone to have opportunities to engage in a world at their optimal level, we will need to find a path to suitability and modesty in a way that is foreign to many.

And herein lies the deepest challenge between US and transformed consciousness. And, mind you, we’re not alone in our predilection, in expediency, to conclude that it’s simply too much work thus reverting to the complacency that leaves our headaches for future generations. After all, when Eleanor Roosevelt, Rene Cassin, Charles Malik, Peng Chun Chang set out in 1948 to get the world to agree that all humans “are born free and equal in dignity and rights,” they thought this concept would take off. Their vision, which launched what became the seven core human rights treaties (International Convention on the Elimination of All Forms of Racial Discrimination (CERD, 1969); International Covenant on Economic, Social and Cultural Rights (CESCR, 1987); International Covenant on Civil and Political Rights (HRC, 1976); Convention on the Elimination of Discrimination against Women (CEDAW, 1982); Convention against Torture and other Cruel, Inhuman or Degrading Treatment or Punishment (CAT, 1987); Convention on the Rights of the Child (CRC, 1990); and, the International Convention on the Protection of the Rights of All Migrant Workers and Members of Their Families (CMW, 2004)).

However, in its most recent report, the Office of the United Nations High Commissioner for Human Rights (OHCHR) is sanguine about the fact that many States are neither reporting nor addressing the conventions’ adherence. Backlog in complaints extend beyond two years in several instances. Precisely how long can one be hungry, homeless, enslaved, trafficked or oppressed before “backlog” becomes a euphemism for “we don’t care”?

You see, in a scarcity-based, mortality-incentivized, debt-ridden consumer industrial model the world accepts that we’re “doing what we can” with the resources optioned from national governments and philanthropic sources. However we’re missing the deepest point in Integral Accounting. Supporting Well-Being isn’t a nice-to-have luxury to be supported by discretionary largesse derived from profits. **Well-Being is a TOP LINE INVESTMENT.** Well-Being is about an ecosystem in which we operate – not the moralistic clean up operation after we’ve bankrupted our land, communities and fellow human beings. Double-bottom line – NONSENSE! By the time we get to the bottom line, we’ve already acquiesced and the line between charity and condescension is terribly blurry. We need to wake up to the fact that there is NO profit in a model which forced another human being or any other component of our shared ecosystem to suffer in silence so we could pretend that we profited.

At this point it’s relevant to point out that most of what passes for “conventional wisdom” in how business is done is propagated and manipulated by the spokespersons for less than 1% of all enterprises on earth – publicly listed companies. The vast majority of enterprises on Earth do a better job at approximating Integral Accounting because they realize that they’re only as good as the team that makes them tick. And even giant firms often have Integral Accounting in their earlier history. The great Dutch bank – Rabobank
began as a financing cooperative between farmers and bakers. Which brings us to an interesting point. It is quite conceivable that our biggest stumbling block towards a more viable, suitable world is our insatiable delusion that “bigger” and “growth” are metrics of success. Ironically, every possible data point in nature tells us that this proposition is ludicrous yet somehow we maintain the insanity that “growth is good”. History shows us that bigger and well-being are not frequent companions. In fact, I suspect you’d be hard-pressed to find a single instance where the bigger an enterprise got, the more well-being was evidenced in its ecosystem. I’m reminded of a large company which is consistently rated as one of the best places to work in America but, interestingly has an employee divorce rate over twice the local average. It may be a great place to work but something about the ecosystem implies that it’s not quite as great a place to live and love!

What does TOP LINE Well-Being look like? For starters, it means that the entire ecosystem in which an endeavor is undertaken sits at a table (with full, equal, and informed transparency) and organizes the endeavor aligned with the principles set forth in this series. Rather than asking the question, “What percentage of the workforce will be hired locally?” it commits to insuring that all parties engage in whatever level of an interaction they wish to engage. And guess what. If you’re exploring for natural gas in Papua New Guinea, this means that you will train brilliant local talent to work alongside geologists and engineers so that they have equivalent participation. If you’re planning to extract rare earth metals out of coal fly ash, it means you engage the children of miners who died from black lung and have them involved with deploying technology with a conscience. If you’re expanding an investment banking analyst back-office programming shop in India, you make sure that your recruits spend as much time in New York and London as the MBAs from Wharton, Chicago, and Darden. If you’re looking to expand business into Mongolia, you start with an investment in re-engaging the nomadic yak herders who saw 20 million head of livestock die in the icy winter of 2009. If you’re building a publishing business to promote a service industry in the US, you make sure that your staff is part of your success from day one with great housing, access to schools, and all the benefits of life. TOP LINE Well-Being is an explicit recognition that every endeavor is made possible by factors well beyond the control or influence of a single person or entity. And if ANY part of the value chain is placed under stress and fails to benefit in a suitable fashion, the entire value chain is placed at risk.

I’m pretty sure that Well-Being will not be achieved by conventions, declarations, and rights. I’m pretty sure that Well-Being won’t be legislated or imposed. In fact, I suspect that we won’t get closer to Well-Being by launching the next campaign to end whatever is the scourge du jour. No, I am certain that Well-Being will be recognized when we see ourselves and our surroundings for what they are and then follow an impulse that aligns our momentary appreciation with the sentiment evoked by those surroundings.

I sat at a rooftop dinner in Manhattan this week with a 28 year old media professional. This young lady was deeply engaged in a conversation that swirled around the globe touching on issues ranging from the environment, to economics, to politics, to intrigue.
When I raised the topic of the media’s silence on issues of injustice around the world, I saw something change. She said, “I wish that there was a way to tell people and make them care but, at the end of the day, it’s all about business – if you’re story doesn’t sell something, nobody cares.” Her face darkened as she said this and she found a recess in her being somewhere which longed for a different narrative. “Well, that will change,” I replied.

So, here’s the deal. Having conducted business for almost two decades by practicing an ever-deepening understanding of Integral Accounting I know that I’ve learned a lot. I also know I’ve got a lot left to learn. But I thought the perfect way to end this series is by offering you something in exchange for your taking time to be part of this effort. If any of you would like to have a detailed Integral Accounting audit or brainstorming session for your company, organization, or group, I’ll commit to doing a one day session in exchange for you evidencing at least two dimensions of integral value exchange with third parties. If you come to Charlottesville to be my guest, you’ll also find out that I’m a good cook – but that will be a different blog! Love and Light! Dave
Accounting for change in estimate, it is treated prospectively whereas change in accounting policy is brought in a retrospective manner. To learn how change in depreciation method is accounted for read: How can we change the Depreciation method? P.S. One important point to remember regarding revaluation of asset is that although measuring asset on revaluation basis on shift from cost model is a change in accounting policy however, it is not treated under IAS 8’s change in accounting policy and it is dealt as per requirements of IAS 16. IAS 16 on the other hand does not require retrospective ef! How should you change accounting policies, accounting estimates or correct some errors? Let’s find out in the article about IAS 8 - video included! How to account for the change? Should we restate previous year’s financial statements? Or can we just make a change or correction in the current year? To approach this issue systematically, you need to decide whether you deal with the change in accounting policy, change in accounting estimate or correction of error. Let’s take a look to IAS 8 Accounting policies, changes in accounting estimates and errors. What is the objective of IAS 8? The Standard IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors tells us: How to select and apply our accounting policies Accounting changes occur for which of the following reasons? A. Management is being fair and consistent in financial reporting. B. Management compensation is affected. Which of the following changes should be accounted for using the retrospective approach? A. A change in the estimated life of a depreciable asset. B. A change from straight-line to declining balance depreciation. C. A change to the LIFO method of costing inventories. D. A change from the completed-contract method of accounting for long-term construction contracts. D. A change from the completed-contract method of accounting for long-term construction contracts.