



Whether lying around on the beach, or recovering from too much good food and wine, here is the ideal antidote to sloth:

Some Mental Exercises for those who are Seasonally Physically Challenged

In the last issue we delved into the archives for an excellent example of scenario planning. Here we present an updated look from Keith Suter of the Global Business Network (see quote in last issue). If you haven't come across the GBN, and you have an interest in the wider world picture and scenario planning in general, you have some pleasure in store when you visit the GBN website at www.gbn.org where you will find heaps of fascinating discussion on the shape of the future – a word of warning, allow plenty of time!

However, you will enjoy the discussion on the GBN website more, if you attempt your own answers to our first Christmas Challenge, beforehand!

Christmas Exercise 1:

The Public Sector in 2020—what will it look like? Background **P 624**, Exercise **P 626**

See also our **END NOTES** on **RESPONSIBILITY**

P. 629 The message for AM from the HIH Collapse

P. 630 The Hamurabi Code

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The Christmas Game

If you have studied Issue 128 “ Scenario Planning”, you will know how the game is played. You take some characteristics, e.g. population growth, and examine the impact on the economy and ‘life as we know it’ under the assumption of more or less of that characteristic. In the following example which was given by Keith Suter to the ASCPA’s National Public Sector Convention in Perth last month (“The Public Sector in 2020 : How will it look?”) the two characteristics are economic growth and ‘government consolidation’ by which he means the extent of involvement of government.

Bias towards economic growth

There is a strong bias towards economic growth in these scenarios—more is automatically considered better. Unlike the more balanced scenario developments in the classic Transport Study covered in Issue 128, these scenarios are written with a strong persuasive tone: the two non-growth quadrants are pretty dismal affairs!

Your Mission —should you choose to accept it

Is to consider alternative scenarios. This is more than ‘just a game’ - asset managers have a unique opportunity to influence the way that our future shapes up, But power only goes to those who know they have it!

So, Consider the Scenarios here presented

And then consider your own (some help is given on pages 626-7)

BACKGROUND INFORMATION

(Scenario names are as chosen by the author)

		Economic Growth	
		-	+
Government Consolidation	+	1984	KEYNES
	-	MAD MAX	FRIEDMAN

The Four Quadrants Explained



Keynes

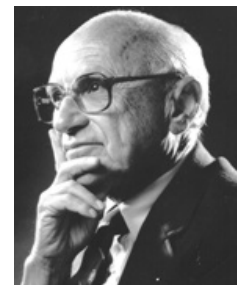
- (+) High economic growth
- (+) Government heavily involved in the economic and social life of the country

Characteristics

- State as a countervailing power to business
- Political process held in high regard
- Public service held in high esteem; almost a religious calling to prepare young people for careers in the public service: a moral life requires almost disinterested service to state
- Public service well led, well trained; offering good career prospects
- Australia seen internationally as a good place to visit and invest in
- A lot of public money on infrastructure
- High rate of taxation by OECD standards
- Community agreement on the importance of distributive justice
- Continuing experimentation with ways of delivering community services but a general acceptance that this is a role for government

Friedman

- (+) high economic growth;
- (-) low government consolidation)



Characteristics:

- High economic growth
- Reliance on the market, minimal role for government
- Political process largely irrelevant: why bother with parliamentary politics if real power lies in the extra-parliamentary hands of big business?
- Minute public service; often a source of derision and entertainment in the media
- Australia seen internationally as a good place to visit and invest in
- Reliance upon the private sector for investment
- Reduced taxation
- Privatised services/user pays

1984

- (-) low economic growth;
- (+) high government consolidation

Characteristics:

- Low economic growth
- Government dictatorship
- Nationalisation of services, eg banking, utilities, legal profession, health service, no private schools
- Public service despised as agents of hated government
- Australia seen as a “North Korea”: poor but tightly controlled; reasonable place to invest in as a source of cheap labour; no union unrest
- Poverty by post code: ghettos

Mad Max

- (-) low economic growth
- (-) low government consolidation)

Characteristics

- Low economic growth
- Very little government/ public service at all
- No faith in the political process
- Australia seen as bad as most countries in Africa; an investment location to avoid; plenty of resources but unable to make the most of them
- Low mortality rate
- Extensive crime

YOUR EXERCISE

As already noted, these scenarios have a strong ‘economic growth’ bias. Low economic growth has only negative associations – government dictatorship or government abdication! Why? There is nothing inevitable about this; it is just a way of thinking.

Are the quadrants right?

What about low economic growth and high government consolidation giving rise to a more caring society? Possible? What else is possible?

Are the axes right?

What about axis that look at environmental sustainment (low to high) and individual responsibility (low to high)

or why not look at the end points of the economic growth axis, and instead of 'less' and 'more' of some undifferentiated all-purpose 'growth' we consider the type of economic growth that we might experience – for example, information based high technology versus manufacturing and agriculture,

or, an axis that looks at the probability of war and peace? (or, and what might amount to the same thing, a focus on the part of the government that, on the one hand, looks inwards to developing the nation, and, on the other hand, looks outward to world domination?)

or..... (your choice)

Draw up your own quadrants and descriptions.

Send them in with your analysis and we can put them on the Virtual Community website where they can generate more thought and discussion

How do these different perspectives affect

- Which categories of assets we will invest in?
- Whether we choose short or long term solutions?
- How we fund, manage, own?

If you choose "economic growth" as one of your axis (and you are not limited to two, see the octagonal pattern used in the Transport Scenarios in Issue 128) then you may wish to consider the following issues

In considering your futures, you may wish to take into account Keith Suter's

Indicators to Watch For

- State of the Australian economy, which is itself heavily dependent on overseas economic developments, NB, the rise of Keynesian economics came after the failure of neo-classical economics and the Depression)
- (USA, Canadian, UK, NZ readers will need to make their own national adjustments here and in what follows)
- Continuation (or otherwise) of the current reliance on neo-classical economics ("economic rationalism")
- Public support (or otherwise) for the political process - for example, in the USA where voting is not compulsory, many do not, figuring that there is little point when it is not the politicians who are making the important decisions but Big Business

- Australian involvement in (or abstention from) international/regional political integration (such as United Nations, Associations of South East Nations) - note, John Howard looks set to win an unprecedented fourth term—*but could the Liberals win a Fifth term without him?* How might a change in government change international involvement?
- Level of community involvement in non-governmental organisations—volunteer groups, lobby groups
- The rise of non-economic bases of debate, for example, spirituality, the arts; a rebellion against the ‘econometric’ basis for public debate (“everything revolves around money”)
- The capacity of the government to cope with an ageing population—can we afford the elderly? The gen X debate.
- Recognition (or otherwise) of the reality of decline in population growth and the future prospects of actual population decline in the absence of major migration. Also recognition of consequences for social cohesion if populations are rapidly increased by migration.

**.....And Some Specific Infrastructure and
Asset Management Related Issues
You May Wish to Track**

Private involvement in public infrastructure

Are governments moving away or towards it? Are the press reports good or bad?

Population shifts (e.g. “the sea change” shift to the coast)

and movements to increase urban density in the cities—where will the population come from?

What implications will this have for your assets?

Triple Bottom Line and Sustainability

How quickly are organisations adopting sustainability goals; how does this (or will this) impact your assets? Lip service, or reality?

Volunteerism

Important for councils, what’s happening here?

Cost shifting

From higher to lower levels of government. Will it increase, decrease, change in nature?

And the biggie—**economic growth**— what will happen here? Speed up or slow down?

If you would like to share your holiday exercise thoughts with others, try the Discussion Forums on www.amqi.com

**END NOTE 1-
RESPONSIBILITY**

**“The fact that your auditors let you do it,
your advisors say it is ok,
and the board approves the accounts,
is beside the point.”**

The fall out from the HIH Insurance collapse has been immense. The ramifications have gone far beyond the building trades and even two years on we have yet to fully cope with the fallout.

2003 began with the Royal Commission into the collapse of HIH Insurance winding up its findings and with more than 100 civil and criminal charges likely to be laid. After 4236 pages of submissions from the commission staff, and more than a year of investigations since the March 2001 collapse, the findings were

- All the safety mechanisms designed to reduce the likelihood of collapse had failed, said counsel assisting the commission, Wayne Martin, QC. These were senior management, the board, auditors, actuaries, lawyers, financial advisers and the prudential regulator
- **The chief cause of the collapse was the longstanding failure of both HIH and FAI to set aside enough money to pay likely future claims by policyholders.**
- "It was trading unprofitably for years before that fact was realised," Mr Martin said.

**What is the difference between a ‘likely future claim by policyholders’
and ‘a likely future claim for asset renewal’?**

They are both a failure to provide for costs incurred now in the provision of current services and failure to provide for either will send you out of business!

Accounting (or auditing, or advisors) notwithstanding, if you are not funding your depreciation, you are ‘trading unprofitably’. The fact that your auditors let you do it, your advisors say it is ok, and the board approves the accounts, is beside the point. You may get away with it for a while,

but eventually...!

END NOTE 2-

RESPONSIBILITY

BABYLONIAN LAW--The Code of Hammurabi.

Hammurabi reigned over Babylon from 1795-1750 BC. The code of law that he set down (on an 8 foot stone pillar) is considered the predecessor of Jewish and Islamic legal systems alike.

229. If a builder build a house for some one, and does not construct it properly, and the house which he built fall in and kill its owner, then that builder shall be put to death.

230. If it kill the son of the owner the son of that builder shall be put to death.

231. If it kill a slave of the owner, then he shall pay slave for slave to the owner of the house.

232. If it ruin goods, he shall make compensation for all that has been ruined, and inasmuch as he did not construct properly this house which he built and it fell, he shall re-erect the house from his own means.

233. If a builder build a house for some one, even though he has not yet completed it; if then the walls seem toppling, the builder must make the walls solid from his own means.

You will notice that there is no mention in the Hamurabi Code about poor workmanship in roads and other major infrastructure – infrastructure was somewhat limited back in Babylonian times, so you will have to invent your own punishments.

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