

2014 THE YEAR OF REALITY

“The challenge for policy makers – and for citizens – is enormous. It is a good time for policy makers to review how they address technology issues and develop a systematic approach: Technology stops for no one, and governments cannot afford to be passive or reactive. The time may be right, for example, to rethink how governments measure the economic impact of technology – to look beyond GDP and employment and look for metrics that truly capture the value added (or put at risk) when new technologies take hold.”

- McKinsey Global Institute
Disruptive technologies: Advances that will transform life, business, and the global economy

If the conversations I have had over the last couple of months with business owners, managers and administrators are any indication, 2014 is going to be the year of reality.

I recently visited with people in Vermont, Massachusetts, New York, New Jersey and California. What is on the mind of more and more people generally relates to the same two basic questions: What are we doing and who is going to pay?

These questions are not limited to business owners. More and more local and state government officials are asking the same questions.

Rick Moran’s recent article “Chicago pension crisis called worst in nation” calls alarm to what is a growing national emergency. He bluntly states, “The Chicago pension crisis the worst in the nation is saying something like, how bad can it get?”

According to Moran, “the teachers’ alone are \$1 billion short of funds, while the city as a whole is looking at a whopping \$27 billion shortfall. The state of Illinois is even worse off with more than \$100 billion in unfunded pension liabilities.”

Moran asks the annoying question: “Where is the money going to come from to fix the problem?”

Moran concludes, “There are no easy solutions as cities across America face up to this ‘pension bomb.’ Eventually, many observers believe Washington will have no choice but to step in and bailout the worst of them or we’d have catastrophic chain reaction bankruptcies across the country. No politically palatable fix is out there.”

This should come to no surprise to anyone. Ranking Senate member Orrin Hatch’s January 2012 report to the United States Senate Committee on Finance, “State and Local Government Defined Benefit Pension Plans: The Pension Debt Crisis that Threatens America” is fourteen pages of very scary information. This report puts in perspective the reality of the financial mess we are in but who has read it? It is not a classified document. It can be found on Google within seconds.

Senator Hatch makes clear “A crisis at the state level – or in a large municipal setting – could worsen an economic downturn in the rest of the nation. The insolvency or default of a large state could have a contagion effect on other states or regions.”

The Hatch report continues, “In the event of insolvencies, the demand for a Federal bailout or bailouts would certainly follow. A Federal bailout of the states must be avoided at all costs. Responsible states that have prudently managed their pension plans and pose no risk of financial contagion to their neighbors, and the American taxpayer, cannot be asked to bailout states that have underfunded pension liabilities for public employees.”

Perhaps the worst aspect of this growing debacle relates to public employees who were hired and promised retirements that are now severely threatened. Worse, many of these employees do not have access to a Social Security as a fallback. Sure there are contracts that may be protected by law but without the money to pay the obligations they are just trash.

The threat of some public employees being left with little to nothing is real. The cities of San Bernardino and Detroit appear to be the testing grounds of which way the pension issue will play out. Moreover, municipal bond holders and debtors join employees who are keeping a keen eye out for the final decision of the courts holding their financial destiny. Early indications suggest that everyone is going to lose.

Who knows how this will play out? One thing is for sure, we are all going to be paying for the folly of the last thirty years. Ironically, those who have created this situation may well be the ones who suffer the most from it.

However, there are exciting opportunities that await all of us. Technology has been responsible for the solutions to many problems and was the foundation of the industrial revolution that built America.

For example, the fastest supercomputer in 1975 cost over \$5 million dollars and had the same performance of today’s iPhone 4 that costs around \$400 dollars. In just over one hundred years we have gone from the first airplane flight to the moon, the outer galaxies and a space station.

However, our human nature remains the same. While old school methods and thinking are holding us back, it will be technology and those who embrace it that will find the future.

We are standing at the gateway of a new world that “will disrupt the status quo, alter the way people live and work, rearrange value pools, and lead to entirely new products and services” according to the McKinsey Global Institute’s recent report “Disruptive technologies: Advances that will transform life, business, and the global economy.”

The report refers to the 20th century economist Joseph Schumpeter who said, “The most significant advances in economies are often accompanied by a process of ‘creative destruction,’

which shifts profit pools, rearranges industry structures, and replaces incumbent businesses. This process is often driven by technological innovation in the hands of entrepreneurs.”

Today’s Emergency Medical Service is a prime example of creative destruction in action as the new health care system moves traditional services to the sidelines. Those who can adapt and redefine their mission will survive while the others will drift into the sunset as memories of how we once did things.

The report identifies twelve potentially economically disruptive technologies: Mobile Internet, automation of knowledge work, the Internet of things, Cloud technology, advanced robotics, autonomous and near-autonomous vehicles, next generation genomics, energy storage, 3D printing, advanced materials, advanced oil and gas exploration and recovery, and renewable energy.

Other technologies identified in the report: Next generation nuclear fission, fusion power, carbon sequestration, advanced water purification, and quantum computing. These growing technologies also have the potential to disrupt our current way of doing things. Is this a bad thing?

The Pony Express was disrupted by the telegraph that was disrupted by the telephone that was disrupted by cell phone technology that is currently being pushed aside by the growing telecommunications technologies that are Internet based.

And so it shall go as we move from performance based management to evidence based management - having to prove ones worth and the value of something. For those who embrace process, your world is about to change.

As we move towards machines and automation we once again return to the truth that numbers do not lie -people do. Indeed, the future is now and the solutions are going to be very disruptive. Knowing and understanding the problems of today, accepting their reality and embracing the future is our best way to mitigate what may be a very rough ride.