Chapter 7. Accounting for People

*That country is the richest which nourishes the greatest number of noble and happy human beings.*
— John Ruskin (1862)

Much of a society’s wealth is its citizens. Are they healthy, happy, well educated, and productive? Are families able to meet basic needs? Do children have easy access to quality education and health care as well as the opportunity to build a career? Are the elderly treated well? Are the mentally and physically disadvantaged cared for? Is it possible for a person to start a career or business and succeed through hard work and initiative? Do people have time to participate in community-building activities and to volunteer? Do laws and law enforcement protect individuals from pollution, expropriation, crime, and government intervention?

In some ways accounting for people is similar to accounting for the environment—it is challenging and involves measures of structure and function. Social costs and benefits include impacts on social capital (education, cohesion) and social services (volunteerism, cooperation). And similar to environmental accounting, much of the social system does not involve cash flow and is therefore not counted by conventional economics.

According to a recent study in Norway, even in developed countries as much as half of all work is unpaid. In developing countries the proportion of unpaid labor may reach 90 percent or more. All countries also have a shadow economy or black market that is not counted because it is not part of the official economy. Conventional economics ignores unpaid and off-the-books labor and financial transactions. Both, however, have large impacts on the quality of life and the productivity of communities.

The challenges in determining what makes a community sustainable need to be better understood to refine estimates of costs and benefits. Almost everyone would define what makes a community sustainable a bit differently, based on their experience, philosophy, and education. Many approaches can be taken to refine the definition, including surveys and comparative studies. Which qualities of community sustainability matter most—satisfaction, love, family, a sense of community, education, opportunity, income, identity, participation, safety, friends, creativity, support for the disadvantaged, volunteerism, freedom, privacy, recreation, health, religion, lack of crime, or affordable housing? What data exists to assess these qualities and concerns and what are their values and costs?

Some concerns are likely to be important in most communities (employment, health, education, community involvement, crime and corruption, culture, opportunity), and these can be broken down by function and structure. It is important to compare these by ethnicity and income class as well. The average may look acceptable, but this may mask severe inequality.

Society Function: Employment and Pay

Two key elements of a successful and sustainable society are widespread acceptance of personal responsibility and a solid work ethic. These result from a wide range of pressures and incentives and can appear challenging to change, but are not fixed. Experience in many communities and countries around the world has shown that the ability to benefit personally from work effort can have almost miraculous effects. For example, garden productivity in many communities doubled or quadrupled after the end of collective ownership under communist rule.

Yet changes in attitude and productivity can come very slowly if incentives and opportunity are lacking. The pernicious effects of slavery and the Jim Crow era are still seen in some communities, highlighting the very persistent and costly effects of past flawed agricultural policy (see Chapter 4). Slave owners objected that they could not be competitive without slaves, yet the long-term results of the abolition of slavery have shown they were deluded. The cost of using slaves was prohibitively expensive. The high percentage of African Americans currently imprisoned (three times the rate of whites) is a legacy of slavery and the equally oppressive Jim Crow era. In addition to the enormous costs of slaves having suffered over generations are the continued and ongoing costs of broken communities and families, inadequate access to health care, and high crime rates. Full recovery from these injustices may take many more generations.

Sustainability also requires employment that offers enough compensation to meet family needs. While in some rural areas it is possible to live well with very little money, in urban areas it is often difficult to provide the necessities of life even with wages that might be considered more than adequate in the countryside. For example, in San Diego a family of four earning less than $42,400, which is twice the income considered “at the poverty line” by the federal government for four individuals, will have a hard time making ends meet. This problem is common around the world, with increasing disparities in income between the rich and poor, particularly in urban areas.

The “race to the bottom” in the search for the lowest price is reducing community stability and making life more difficult for people and communities around the world. While this problem is more recognized and understood in developed countries (e.g., the American Rust Belt of portions of the Northeast, mid-Atlantic, and upper Midwest), 30,000 businesses were expected to go out of business in 2008 in Hong Kong and Guangdong, China where the social safety net is thin or non-existent. These companies had become too expensive to compete
in the “lowest price at any cost” economy. Work was being shifted instead to more remote rural areas in China, Vietnam, and Africa, where wages are lower and environmental protection is nonexistent.

In some areas of the world a shoemaker may earn as little as 10¢ an hour with no benefits. In the United States a comparable worker may earn $12 per hour plus benefits (or about $15 per hour total) for the same work. The labor cost for the shoemaker earning the lower hourly rate may be less than 1 percent of the U.S. labor cost, but overall savings are much lower when transportation costs, increased administration costs, and possible bribery and corruption costs are factored in.

Current economic theory dictates that low wages are good and that shoes should be made where the production costs are lowest, no matter how high the external costs may be. How would a shoemaker in New York who lost his or her job feel about this business model? What would the costs look like if the environmental costs of transportation or the full social costs of disrupted communities in the United States were factored into labor costs? Manufacturing in the U.S. will be much more competitive when true cost accounting is done.

According to conventional economics the accelerating race to the bottom is the best approach and will provide the greatest benefit to company shareholders. The pernicious myth is “go where the costs are lowest” (i.e., places that have no labor rights or environmental protection), and all will prosper. This falsehood should not have gone unchallenged for so long. The drive to the lowest cost at any price has created a situation where only about 1 percent of shoes sold in the United States are manufactured in the United States. As production drops, supply bottlenecks develop, further increasing costs and reducing competitiveness. If someone needs a special shoe eyelet, it is likely that it is no longer produced in the United States.

Software, engineering, tax preparation, and even architectural work are moving offshore for the same reasons. Offshore labor costs are often only one-tenth to one-quarter U.S. costs. Even with added administrative costs, the apparent cost saving may be 20 percent or more. However, if true cost accounting were done, it is likely that overseas production and services will often be more expensive.

Increases in the price of oil during 2008 changed the equation for industries that manufacture heavy products. Furniture makers, for example, were considering moving some production back to the United States from China when shipping prices increased. But they were finding it hard, however, to hire skilled workers. Those workers abandoned by the furniture industry have moved on to other careers and may be leery of resuming work with an industry that has vanished once and may again.

Improving the competitiveness of communities and raising wages would give people the freedom to work less and participate more in community activities. Any government support or assistance must be carefully designed to provide incentives for skill building and innovation, not simply job security or unemployment compensation. Denmark’s “flexicurity” approach, which offers easy hiring and firing (flexibility for employers) coupled with good benefits for the unemployed (security for the employees and retraining), appears to offer a good balance. Most U.S. programs have failed to provide needed incentives and rewards for retraining.

Improving income equality may increase the feeling of engagement and raise voting participation above the rather dismal rates now observed. An ethical company or organization should consider trying to provide no less than a living wage along with benefits, childcare, and educational opportunities.

The race to the bottom also ignores the fact that workers who know their jobs and are content are more likely to provide quality workmanship and service. Many exploited workers are not happy and think about leaving or do leave to find new jobs. Or they may stay, but work below par, take extra sick days, and treat customers poorly. For example, in the food industry, where worker pay is very low, the average work stay is just one year. Across all jobs in the United States, the mean work stay is less than four years.

The costs of hiring a new employee are significant and include advertising, reviewing, interviewing, hiring, training, and reduced productivity while the new employee learns the job. For an information technology firm of 1,000 employees the cost of a 25 percent increase in voluntary job changes was estimated to be more than $4 million per year. The cost of turnover can easily make the difference between profit and loss. Having a sick or disgruntled worker can cost much more if it leads to insurance claims, workplace stress or violence, lawsuits, or abusive treatment of customers and supply-chain partners.

Society Function: Health

Health is one of the most important factors in accounting for people because ill health carries such large cost burdens for the individual and society. It is hard for a person to be happy and productive if he or she is not well. Health costs continue to increase year after year while overall health continues to decline. The health and safety of workers, communities, and customers should be considered in relation to the operations of a company or organization. Do any parts of the supply, distribution, maintenance, and disposal chain involve health risks? If so, how can they be minimized and how much might it cost? Who should pay? How can those responsible for risks and impacts be made accountable?

Good workplace design and maintenance are critical. Workers can easily be sickened by bad working or living conditions (Figure 7.1). When people are sick, productivity and job satisfaction decline and turnover increases. A detailed study by the Department of Energy...
and Lawrence Berkeley Labs estimated that bad interior environmental quality (IEQ) costs the United States $164 billion each year. The Environmental Protection Agency’s estimate was a little lower at $130 billion. More complete accounting of these costs could drive adoption of better architectural design, engineering, building, and maintenance.

**Figure 7.1. Farm worker housing in California**

Although the largest risks are to workers, products that expose people to potentially harmful materials probably entail the greatest social cost impacts. The costs may include risks of cancer, hormone disruption, allergies, heart attack, stroke, asthma, inflammatory bowel disease, chronic pulmonary disease, or injury. These costs can be difficult to estimate because it is hard to identify and isolate the responsible parties. It is much like a mob hanging in the old West—if everybody participates, no one person can be held accountable.

The misuse of antibiotics in agricultural production is also a special concern that carries very high social costs. The practice of feeding antibiotics to healthy animals is contributing to the creation of a range of super bacteria that are resistant to common antibiotics. The rise of methicillin-resistant *Staphylococcus aureus* (MRSA) is a good example of a social cost created in part by incomplete cost accounting. It appears likely that one of the reasons for this growing epidemic is the widespread misuse of antibiotics, including methicillin, in agriculture. However, the use of antibiotics in medical practice in the United States has also been very poorly managed. The social asset value of antibiotics that have worked well in humans has been ignored in the rush for high returns and rapid profits (i.e., for use in agriculture), or to satisfy the demands of parents who browbeat doctors into prescribing drugs for sick children (e.g., for ear aches and colds in children where they will do no good).

The rapid increase in MRSA infections is worrisome not only from a health perspective, but also because of the high social cost of treatment. The number of MRSA infections treated in hospitals doubled from 1999 to 2005 (Figure 7.2). Each hospitalization costs about $30,000. Total annual treatment costs now exceed $9 billion and the annual estimated death rate ranges from 6,000 to 18,000. If the value of the lives lost is factored in, the social costs would increase by between $6 billion to $18 billion. This is an incomplete picture, however, because MRSA infections are not required to be reported in many areas.

**Figure 7.2. MRSA Hospitalizations**

Obesity is an even more critical social cost problem and is now recognized as a significant health crisis in the United States and many other countries. More than one-third of Americans are obese, and in some subpopulations more than two-thirds of people are obese. Many will develop diabetes and require lifelong care and treatment.

The success of massive advertising campaigns for fast foods and processed foods and the lowest-price-at-any-cost approach to food production have helped create the obesity crisis. Americans may pay the lowest prices for food in the world, yet they pay some of the highest costs in health and environmental impacts. The federal government subsidizes unhealthy foods rather than healthy alternatives. Fattening foods are also advertised more, and are more readily available in economically depressed communities.

Lack of access to health care, the costs of health care and health insurance, and the capacity to deliver health care are serious and severe problems in many areas. Remote Area Medical, a remarkable non-profit organization that once provided medical relief missions to developing nations now focuses more than half of its attention on the United States, but cannot meet the demand. People drive for many hours in the hopes of getting free medical, dental and eye care they cannot afford.

More than 44 million Americans had no health insurance in 2002 (up from 35.4 million in 1992). By 2007, the number had grown to 45.7 million people, and
the collapsing economy is expected to add several million more people to the ranks of the uninsured in 2009.

Employer-sponsored health insurance coverage has declined steadily, from 88 percent of employees in small firms of three to nine employees in 2001 to 45 percent in 2007. For larger firms the rate declined 7 percent over the same time period to just 60 percent in 2007. Even when coverage is offered it may be costly, limited, or carry very high deductibles. This historically has been a problem primarily for the poor, but more and more middle class families are finding themselves unable to afford health insurance, with a recent 78 percent increase in the uninsured among families earning between $50,000 and $80,000 annually.

Lack of health care is a persistent problem for those earning less than $20,800, or double the 2008 federal poverty rate for an individual. Even when an employer offers health insurance, a worker may have to pay 30 percent of the cost or pay very high deductibles that effectively keep him or her from seeking medical treatment. Workers without health insurance also add to social costs in many other ways. For example, most food workers in the United States earn a low wage and typically have no health insurance, which means when they are sick they still have to go to work to get the tips they need to live on. This exposes millions of people to colds and other illnesses each year, resulting in billions of dollars in treatment.

The availability of insurance for those in poor or fair health is much worse than for those who need it less. The sicker you are the harder it becomes to get insurance. And if you have a chronic health condition you may not be able to get insurance at all.

Lack of health insurance also leads people to use emergency rooms versus seeing a private physician, which clogs the ER system and has led to significant financial losses and ER closures. In many cases this rising trend has also led to ER wait times of 6 hours or more, with attendant social costs for other patients. The uncompensated ER costs are passed on to taxpayers and those who have health insurance coverage (in the form of increased costs for health care services, premiums, and deductibles). Even many who do have health insurance or a medical plan find it to be inefficient, costly, and sometimes ephemeral. Insurance coverage may appear adequate, until you need it, when it vanishes in claim denials. Although providing universal health care can be challenging, it could reduce costs and result in happier and safer workers. It would also improve the competitive position of U.S. companies against companies in countries where universal health coverage exists and health insurance is not a company responsibility.

Companies that appreciate the value of healthy workers are finding that providing on-site health care can offer many benefits. First, employees do not need to take time off to go to a clinic or doctor. Second, a company is often a large enough customer to negotiate with health providers for reduced costs. Having convenient access to health care can improve workers’ attitudes and productivity.

Relocating a factory or business from a community to a more rural location to save on land and development costs for the company can easily be outweighed by increased health costs to workers and social costs to the community. True cost accounting would help balance these accounts. A commute to a distant facility or shopping mall can increase car use and traffic, adding pollution and adding health costs. Communities designed for cars instead of people reduce the opportunity for walking, biking, and other calorie-burning activities that promote health. More time spent at work and commuting creates time constraints that limit opportunities to exercise and add stress to individuals and families.

Companies and communities can help by developing and supporting company and community health initiatives. The healthy cities movement was started in Toronto, Canada, with a meeting in 1984. This program overcame early objections in Toronto and has now been replicated in other cities around the world.

Society Function: Education

Perhaps the most critical challenge for long-term sustainability is education. Changes in school environments, such as the standards and goals required by the No Child Left Behind Act of 2001 (which might better be called “every child left behind”) are intended to improve reading and arithmetic skills in the United States. The gains, however, have been modest and have often come at the very high cost of diminishing overall knowledge and skills. Although these gains in reading and math are welcome, the more essential skills of critical thinking and problem solving have been neglected (Figure 7.3). The appalling failure of our educational systems to adequately prepare students is apparent to anyone who has spent 20 to 30 years teaching in a college classroom. Knowledge of science, history, philosophy, geography, languages, and other topics are increasingly vital for participation in the global economy, but have cratered in the face of new mandates to “teach for the test.” International students often now more about American history and geography than domestic students.

Almost all European countries and many Asian countries now stress science and multi-language literacy for global competitiveness. The United States, however, has failed to adequately support these important educational goals. The United States graduates below the average number of science majors for the countries in the Organization for Economic Co-operation and Development per 100,000 workers ages 25–34, and only about half as many as Finland, Korea, Australia, the United Kingdom, and France. Engineering excellence is also slipping, with fewer graduates and more and more engineering outsourced to Eastern Europe and Asia. Parts
of Boeing’s engineering effort, for example, has been moved to Russia to reduce costs.

Figure 7.3. Problem solving ability below level I

The competitive edge that the United States once held has slipped away. Teaching is no longer a valued profession and instead is more often seen as a field with poor working conditions, modest pay, and little respect. These perceptions have led to a decline in teacher proficiency.

With so many young recruits enlisted in the armed forces and fighting in the Afghanistan and Iraq wars, the United States should consider renewed support for educational investment comparable to the GI Bill passed following World War II. Opportunities for grants in science and engineering students should also be expanded. Sustainability as a integrating theme for learning across the curriculum may help reengage the full student body, including those heading for trades as well as higher education. Education, engagement, and hope are also the best tools to fight gangs and crime.

Companies and organizations can also help to improve educational access for underserved and low-income students by investing more in grants and scholarships. Loans simply do not suffice, and students cannot excel when they are working two or three jobs to make ends meet and to pay for their classes. The costs of higher education in the United States stands in stark contrast to many other countries where higher education is virtually free. The continuing cost increases in education in the United States reinforce the growing divide between the rich and poor, and also price many bright and hard-working minorities and children of poverty out of the educational system.

Many of the best companies also support the continuing educational efforts of their employees, either through time off or financial support. This is typically done in the high tech and professional ranks, but the convenience store Wawa reimburses tuition for employees to pursue college degrees. Wawa also maintains an in-house curriculum of 100 courses for employees, from accounting to inventory management. Most companies and organizations that provide support for advanced studies find that it pays handsome dividends. Support for the families of employees for their educational pursuits is also desirable.

Society Function: Community Involvement

Community involvement is also important for the sustainability of a community and society, but is rarely measured. A breakdown in community function can lead to the very high costs of despair, crime, and distrust. In general, community participation in the United States has declined in recent years. Volunteer work by older adults has doubled (much of it involving churches); but community participation and volunteering, have dropped for the more important population in their prime work years, 30–59, with children in school.

Increasingly longer work days and commute times as well as the necessity for two or three incomes to support a family have made it very difficult for many individuals to volunteer and participate in their communities. Neighborhood designs that favor the automobile instead of people limit community interaction. These intertwined factors adversely affect education, health, cohesion, and equity as well as contribute to social costs.

Organizations and companies can help support community-participation initiatives in a variety of ways. Patagonia has a plan that offers paid staff time for volunteer work. Local and state governments can also help by providing meeting facilities, by educating and training citizens to be more effective community members and leaders, and by changing work schedules. The recent trend toward four 10-hour workdays might provide new opportunities for community participation. Fridays may even become “community-participation day.”

A recent Volunteering In America study of the 50 states ranked California near the bottom at 40th for volunteerism, with a participation rate only half that of the best state. This may be attributed to a range of factors, including low wages, long work hours, economic
Community participation is often best in states and communities with well-established neighborhoods where neighbors know and interact with each other. Many of the problems of community social isolation are designed into current development patterns that have resulted from a perfect storm of perverse incentives, rules, and regulations involving city staff, planners, developers, engineers, architects, automakers, homebuilders, and financiers that ignore external social and environmental costs. No one person is at fault, but everyone played a part.

Society Function: Crime and Corruption

Crime creates a wide range of costs. Property crime, crimes against people, and corruption are concerns in many parts of the world. If a community, company, or country fails to offer opportunity, adequate pay, and support for workers and stakeholders, the result can easily be crime and corruption. Crime may be directed at a company through theft, fraud, or sabotage. More commonly, however, it is directed at the citizens of a community. A company that closes a plant, which will drive unemployment up, bears some responsibility for the decline and dysfunction of a community and for the increase in crime that may result. The effects of a lack of opportunity can be seen in the annual homicide and robbery rates of cities such as Detroit and Washington, D.C., in comparison with other cities and countries (Figures 7.4 and 7.5).

Crimes include physical and emotional costs, and the costs of law enforcement, prosecution, and incarceration. Economists count some of these costs because they involve an exchange of money, but personal suffering is ignored. Few, however, would argue that this is money well spent or that it represents the true and complete costs of crime. Community investment that reduces crime by increasing opportunity is much more valuable than building prisons. Sadly, the United States currently has more people in prison than any other country. Many who are in prison are there for drug-related crimes that are often driven by desperation and the perceived (and often real) lack of opportunity to succeed in legal occupations. As Levitt and Dubner (2005) note, drug dealing is not a very lucrative career except for the bosses, but it is one that is widely recognized and open to people with little education.

There is growing evidence that heavy metal exposure (cadmium, lead, mercury) and poor nutrition may contribute to crime and violence in disadvantaged communities. This issue can be addressed through healthy community initiatives.

More than half of the people imprisoned are convicted of nonviolent offenses. As many as half of the prisoners may have mental health problems. Many of the people incarcerated would benefit from residential or institutional treatment for their illness, but this is rarely provided. The high costs for prisons and jails are in part a result of a failure to provide adequate care for the mentally ill.
There are currently more than 2 million people incarcerated in the United States (Figure 7.6). In 1995, one in three African American males between the ages of 20 and 29 were involved in some form of criminal justice control. The rate rises to one in two in Baltimore and Washington, D.C. An African American male born in 1991 had a 29 percent chance of being imprisoned versus a 4 percent chance for a white male. In addition, 1.4 million African Americans have lost the right to vote as a result of imprisonment, and in states with the most strict voter controls as many as 40 percent are likely to be disenfranchised. The costs of crimes to society and of purported crime prevention are appalling. Prison and jail costs in the United States are now more than $40 billion per year. The cost of prison is skyrocketing, diverting needed resources from education.

Corruption is defined as “the abuse of entrusted power for private gain.” It is instigated by individuals in the public and private sector for a wide range of purposes and may include bribery, fraud, extortion, collusion, conflict of interest, cronyism, money laundering, and offers of gifts, loans, fees, rewards, or other advantages as an inducement to do something that is dishonest, illegal, or a breach of trust.

Corruption is linked to poverty, social unrest, inequality, greed, lack of legal opportunity, damage to the environment, illness, crimes of violence, abuse of human rights, misallocation of investments, and an undermining of the rule of law. Corruption and bribery entail very high social costs and sadly are endemic in many parts of the world. In some countries, bribes make up 10 percent or more of a family’s expenses.

Corruption can eat at the soul of a community or company like a corrosive acid. It breaks down trust, engenders suspicion and anger, and impairs investment and productivity. Corruption can also pose considerable risk to an organization’s reputation and business relationships. Executives may serve jail time or may be involved in lengthy and costly litigation.

Much of the corruption in the United States is often deemed “soft corruption” or “cocktail corruption.” The effects, however, are pervasive and damaging and more commonly occur through interactions among politicians, developers, and large corporations and political action committees. These powerful connections are often used to secure subsidies and legislation to limit liabilities related to external costs.

**Human Rights**

A company bears responsibility for protecting human rights in its operations, purchasing choices, and subcontracting relationships. Company policy should clearly and emphatically reject slavery, forced labor, or child labor throughout the value chain.

The goal in hiring should be to create full-time positions rather than part-time “associates” or “contractors” who do not have job security or benefits. Policies that allow the freedom to associate and unionize, collective bargaining agreements, and self-representation are critical. Such stakeholder policies can add value to an organization or community.

Employees should be offered reasonable work hours and flextime to attend to illness, childbirth, and responsibilities to family members. Policies and procedures should be in place to provide information for and consultation and negotiation with employees regarding changes in operations (e.g., restructuring, layoffs, relocation).

Stakeholder forums can provide formal worker representation in decision making or management, including corporate governance. Open-book management can bring all employees up to speed on the importance and value of their contributions to a company or organization, building pride and improving productivity. Employee benefits that extend far beyond those mandated by law will generally add value to a company or organization.

Employer and employee training concerning all aspects of human rights relevant to operations should be developed and implemented. This is particularly important for organizations in sectors that rely heavily on outsourcing and global networks. Policies and procedures should be developed to evaluate and address human rights within the supply and distribution chains, because what is not measured is not managed. Failures with regard to monitoring human rights can result in costly damage to a business’s reputation. Screening and evaluation of human rights issues are a vital part of risk management and sustainable operations.

**Cultural Integrity and Vitality**

Local culture and heritage can be important and valuable resources to the sustainability of a community,
but costs and benefits may prove challenging to calculate. The value and costs of cultural vitality might be estimated by comparing an intact or healthy community with a comparable community that has been broken. The value of cultural resources that improve a local economy can more easily be estimated, such as tourist-related impacts to local culture and heritage (food, art, religion, music, etc.).

Protecting cultural integrity and identity can be very important if the local culture is unique. A company should consider creating a special set of policies, guidelines, and procedures to address the needs of indigenous people, including those in the workforce and in communities where the company currently operates or intends to operate. Issues of front stage (interactions with tourists), back stage (normal family life and activities), and off view (hunting, farming, fishing and working) need to be considered.

Procedures to involve stakeholders in management decision making and conflict resolution may be needed. Sharing operating revenues with a local community should also be considered if some operations could be set up as a cooperative endeavor. If not, a company should consider what percent of revenue will be returned to the community and how it should be spent. If security personnel will be hired, they may need special cultural sensitivity and language training. Appeal procedures for discrimination or ill-treatment should be in place for workers. An effective non-retaliation policy also should be in force. If it is not, it will be difficult to maintain or improve the quality of employer/employee interactions.

Culture also plays an important role in employment, health, education, crime, and corruption. Are employment practices family-friendly? If not, what could be done to make them better? A worker without worries at home will be a better worker. Is childcare offered? What flextime or time-off provisions are available to ease individual or family stress?

Classical economics has little interest in healthy families, communities, and social structures. What is the value of a congenial village council, a parent–teacher organization, or a volunteer club that helps older adult shut-ins? If no money changes hands, there is no value. Perhaps the most important factor in quality of life is a sense of belonging, place, and community. Ideally a large company would develop programs to examine potential social impacts (good or harmful) before entering a community, after operations begin, and after leaving a community.

Equity and equality

Equity or fairness must be more carefully considered in company and government policy development and implementation. Growing inequity is an increasing problem in the U.S. economy at large, as it is in most countries. Current policies favor the rich (who overwhelming write the laws) and disadvantage the poor and middle class. As Adam Smith noted in the eighteenth century, “Civil government, so far as it is instituted for the security of property, is in reality instituted for the defense of the rich against the poor, or of those who have some property against those who have none at all.”

The richest 1 percent of the U.S. population increased their share of household net worth from 24.8 percent to 38.1 percent from 1981 to 1998. Income, as a percentage of total income, of the richest 1 percent almost doubled in the same period. The top 1 percent controls as much wealth as the bottom 90 percent. In 1950, the top tax rate on the super rich was 91 percent. By 2008 the rate had dropped to 40 percent, and many pay little or no taxes thanks to complex tax laws and offshore holdings.

The United States ranks 72nd in the world for income equity, far behind many countries in Europe and even some developing countries. If we compare the United States and Japan we can see the enormous disparity in income and wealth inequality. Before the crash, Americans averaged, a net worth of $143,727 compared to a Japanese average of $124,858. The 90 percent of Japanese at the bottom own 60.7 percent of their nation’s wealth; while in the United States the bottom 90 percent of Americans own just 30.2 percent of the wealth.

![Figure 7.7. Inequality in wages, high to low](image)

From 1973 to 2000 discretionary income (as a percent of income) had dropped 50% in the U.S. An estimated 30 million workers are trapped in poverty despite long hours of hard work.

Crime and opportunity are inversely related, and African Americans still face a great disparity in risk of crime (Figure 7.8), access to quality education, and financial prospects. True cost accounting would help
level the playing field. What current decisions are being made that will have such high legacy costs 100 years from now?

Figure 7.8. Violent crime victimization by race

Diversity Awareness and Acceptance
Diversity comes in many forms and can add value to a company, organization, or community. Common forms of diversity are race, religion, age, sex, gender identity, culture, and ethnicity; however, diversity also is related to geographic location (country of nationality; regional identity; rural, urban). These diversities are related to a person’s life experience and involve a range of factors and influences, including income, habits, hobbies, education, work, family, physical appearance, parental and marital status, birth order, and so forth. Within a company or organization there is also the diversity of function, responsibility, management status, organizational experience and history, seniority, work location, union or nonunion, and previous industry experience.

A strong community, organization, or corporate culture can minimize differences by treating diversity as added value instead of conflict. Within a company the cultural differences between the marketing, engineering, design, and finance units may be significant even within a country and much larger between units around the world. Diversity awareness and acceptance are encouraged through effective education and clear communication—less jargon, more plain language. Just say no to using acronyms that some individuals will not understand. Engineeringese, legalese, and marketingese should be deemphasized so that all can work together toward common goals. Cross-cultural communication is critical across the full range of diversities. Within a community it is important to acknowledge commonalities and differences between different groups. I have seen this used to great advantage with teams working on difficult decision-making problems involving land use and water supply.

Diversity adds value. Different perspectives, approaches, experiences, and attitudes can help a company or nonprofit organization grow productivity and meet customer needs better, which will offer a market advantage. By extending opportunities to all qualified people, a company can also add value and strength to local communities. Increased opportunity can add hope, energy, and enthusiasm for the future to a community.

Estimating Social Costs and Benefits
Social costs and benefit calculations can be challenging, but are essential for true cost accounting. Some costs, such as for health care, are available, but they can be hard to attribute to a specific company, manufacturing process, or product with the current level of understanding of true costs. The costs may be able to be estimated from national or state data (see, for example, the estimate in Chapter 4 of AlcCo’s social costs related to the impacts of alcohol use). Costs associated with crime are also often available, but are harder to assign to an industry, company, product, or service. However, in some cases it would not be too difficult. For example, the costs associated with the increase in domestic violence when the local professional sports team loses could easily be tallied and charged to the sports franchise. Other types of social costs are even more difficult to cost. For example, what is the cost of a failed community? Of a broken family? Of a life lived below the poverty level?

It may be helpful to simply start with what can be found or is known. Social costs may be estimated based on a company’s percentage of industry costs. The costs related to product sales and use may also be explored. Cigarettes and alcohol have been fairly carefully studied, although improvements could still be made in estimating lifetime costs. A more challenging problem would be estimating the social costs of a power plant that produces a range of harmful pollutants that impact a very large area. Although it is certain that people are being affected, the questions are: Which people? How badly? And what are the complete costs? It may not be impossible to determine who has been injured by the power plant versus who has been affected by emissions from a nearby freeway, but the relative emissions loading could be used to roughly apportion costs.

The health cost impacts of products and materials are difficult to determine unless deaths or severe illnesses occur or unless very large longitudinal studies are done. A courageous Food and Drug Administration scientist estimated that 28,000 people might have died from
increased health risks associated with taking the drug Vioxx (which is no longer manufactured). Using a current cost-per-life valuation of $1 million, an estimate of the social cost of the drug is about $28 billion. This estimate outweighs the remarkable annual profits of $2 billion that sales of Vioxx were providing Merck, and dwarfs the $4 billion settlement that the company extended to victims.

Exposures to hazardous chemicals and pollutants commonly lead to chronic health problems or diseases such as cancer, which are very difficult to attribute blame for. Research is critically needed to improve understanding of the hazards of chemical and pollution exposure. The knowledge that individuals carry a body load of hundreds of chemicals should be a cause for action, not indifference. A first step might be to conduct a full blood screen for any person diagnosed with cancer. The expectation (and hope) is that most of the more than 300 chemicals in a person’s blood are harmless or not very harmful, but it is likely that 10 to 20 of these chemicals will indeed prove to be very harmful. And the question at the moment is, which ones?

An Example of Social Costs: Wal-Mart

Estimations of the social cost of low pay can and should be made. Low pay, less than full-time employment, and limited benefits not only affect employee work and satisfaction, but also families, communities, and governments. Company costs are passed to the government and then on to taxpayers. A University of California study in 2004 found that the average Wal-Mart worker was costing California taxpayers $1,952 dollars each year in health care costs and costs for other services. If this estimate, which is probably higher than the national average, were extended to all of Wal-Mart’s 1 million employees, the social costs to the country may exceed $2 billion per year.

Wal-Mart has excelled in seeking and receiving tax breaks and other subsidies totaling more than $1 billion. Many other companies have been given equally outrageous public support and generate comparable social costs per employee. Wal-Mart, however, has become big enough to be scrutinized in more detail. It is not alone and is representative of the problems that arise from incomplete accounting, scandalous government policies, unethical corporate management, and flawed economic analysis.

An Example of Health Costs: The R. J. Reynolds Tobacco Company

The social costs of cigarettes produced by R. J. Reynolds Tobacco Company and other manufacturers include a wide range of health related costs. Cigarettes are known to be both addictive and deadly, but are still sold in almost every community in the United States and around the world. The worldwide annual death toll from cigarette smoking is estimated at between 4 million and 10 million people (as many each year as were killed in the Jewish Holocaust). In the United States the annual death toll is a more modest 400,000 people, but this still equivalent to a passenger jet crashing every 3 hours. The annual health care costs for smoking-related illnesses have been estimated at $167 billion by the Centers for Disease Control.

True costs are actually much higher than $167 billion because annual costs do not account for future costs. Even if everyone stopped smoking today, health costs from smoking would continue for many decades. Costs are also not complete in recognizing more subtle impacts of smoking and secondary exposure, including significant lifetime care costs for individuals born premature and who have less effective immune systems because their mothers smoked during pregnancy. Lifetime costs for these immune-compromised individuals can be in the tens or hundreds of thousands of dollars. Their suffering also entails significant costs.

R. J. Reynolds produces about 28 percent of the cigarettes sold in the United States, and in 2006 their reported net income was $1.3 billion. A conventional economic analysis would show that this is a profitable company well worth investing in. However, when the social costs of cigarettes are analyzed, the picture changes radically. The social costs can be estimated by counting R. J. Reynold’s share of the market against the estimated annual social costs of cigarette use in the United States. Their share works out to be $46 billion. If the tax revenue for cigarettes is counted as an offset, R. J. Reynold’s share of taxes can be subtracted ($6 billion). This leaves their share of the social cost at about $40 billion. Costs should also be shared with customers and retailers, who clearly bear some responsibility for the social costs of cigarettes. If the costs were split three ways, the net annual social cost for R. J. Reynolds drops to $13.3 billion.

While profits from partial accounts are considered adequate by flat-Earth economists, they clearly are not. With a net annual loss of $12 billion (profit $1.3 billion minus social cost $13.3 billion), not including environmental costs, R. J. Reynolds is no longer a profitable company.

Estimating Social Benefit

Social benefits can also be challenging to estimate. They include the positive effects of products, employment, services, and related impacts throughout the supply and distribution chains. Pay and benefits for workers are usually known and can be presented in a simplified format. These will also have multiplier effects with other local organizations and companies, perhaps one to three times direct pay. Larger benefits can result from the use of products and services that make people more productive, healthier, or happier. Added productivity and health are easier to measure and cost,
but added happiness may be the most important. As noted in a popular credit card advertisement, the cost of many things can be calculated, but some things are “priceless.”

When education, pay increases, opportunities for advancement, or the strengthening of a community are included as key goals of an organization, then their potential value or social benefit should be estimated. For example, the Chan Chich Resort in Belize supports education for local community members. Those with special promise or ability receive advanced training so that they can assume higher paying positions within the resort, which adds significant new strengths and value to the community.

The value of education can be estimated by looking at increased earning potential, which can be significant. Advanced training and education also may lead to improved satisfaction with career, family, and life as well as a reduction in illnesses and medical costs as a result of increased awareness, less stress, or better access to care. These savings can also be estimated.

The value of volunteerism and community participation can be estimated by valuing the labor contribution. For example, a Parent–Teacher Association with 100 members who each contribute 20 hours each year to the organization might total an annual value of $50,000 or more. A company could perhaps develop a survey to estimate the total annual contribution their employees makes to the community.

Reductions in crime may be estimated in relation to corporate performance and community outreach and involvement. Less law enforcement, prosecution, and incarceration can save taxpayers money. Less crime can mean savings for all.

A developer could claim value for a well-designed community that encourages interaction instead of isolation. Designs that put more eyes on the street reduce crime and strengthen communities. The crime rate in the innovative Village Homes solar subdivision in Davis, California, has been the lowest in the city, in large part because the developer’s primary goal was to build a sense of community. The many community-building strategies that the developer used have worked, and residents have a much larger network of known neighbors than in conventional subdivisions.

Perhaps the easiest social benefits to measure are direct contributions to community organizations and foundations that provide social support, education, or improved health or quality of life. Members of the 5% Club, who donate 5 percent of profits each year to these types of community organizations, deserve recognition. Some companies go even further, tithing 10 percent for good. Investments in local communities often have a multiplier effect, perhaps one to three times direct outlay, and they usually encourage and facilitate volunteer work from others in the community.

A Social Benefit Estimation

In some cases it is not terribly difficult to estimate social benefits. For example, Alliant International University in California has provided education services since 1952 (with a couple of name changes along the way). The social benefits created by Alliant International University include: higher salaries for graduates; knowledge returns to the United States and many other developed and developing countries around the world; volunteer efforts by undergraduate and graduate students (totaling thousands of hours each year) and similar contributions by faculty and staff; and long-term improvements in education in many countries from graduates who go into teaching. There are also the direct benefits of payroll, purchasing, and multiplier effects from direct spending. The impacts of direct spending may total $150 million to $200 million for California communities every year, using a modest multiplier effect.

There is also the added value in satisfaction and personal achievement for both employees and students. This is harder to value, but teaching at the university level is generally very rewarding psychologically, even if salaries are modest. Working with people and helping them to succeed touches the heart and rewards the spirit. The added value of education, of reaching thousands of students in a faculty member’s career, is clear. Another long-term benefit is the improved sense of self that students gain through their accomplishments in undertaking and completing challenging tasks and reaching personal goals.

Much of the work done at Alliant International University involves research on education, business, and psychology, which may have more dramatic multiplier effects than many other disciplines, further increasing the social value of the university. The business students, for example, have created, developed, and improved thousands of companies and organizations around the world, adding many times the value of simply just improved wages.

There is also the added value of improved quality of life and satisfaction for the clients and families of the many thousands of psychologists and organizational psychologists who have been trained at Alliant International University over the years.

Even if only the easiest social benefit is addressed, the impact of higher salaries for graduates, the value is impressive. Assuming that half of the 50,000 graduated students are still working and knowing that the average college undergraduate earns $22,000 more per year than a high school graduate, then the annual social benefit from Alliant International University is about $550 million. The social benefit would in fact be considerably higher because many graduates have earned MS, MBA, DBA, or PhD degrees, which have resulted in significantly higher incomes.
A graduate with a doctorate degree earns on average 70 percent more than a graduate with a bachelor’s degree. And a professional degree doubles income. The social benefits added together may total close to $1 billion per year for Alliant International University. This is not surprising. Countries that provide free education through college are aware that their investment provides exceptional returns.

**Balancing the Books**

A company or organization will rarely be able to complete a full social cost and benefit analysis. Larger organizations, however, should be expected to make an effort to fully balance their books. Sufficient detail should ideally be developed to isolate bad products and services from good ones, so that they can be improved or eliminated. Government agencies and nongovernmental organizations can play an important role in estimating social costs by assisting with research, putting pressure on worst offenders (as has happened in the cigarette and alcohol industries), and publicizing the efforts of companies that make good faith efforts to prepare true cost accounting reports. These efforts in turn would help companies and organizations create and implement programs that improve quality of life, strengthen families, and enhance the vibrancy of communities.

Social costs and benefits are likely to be more important than environmental costs in many cases. If a population is not well educated, healthy, hopeful, and willing and able to work together, there may be little or no hope for a livable and sustainable future. If people do not meet their basic needs, they will be unable to support protection and restoration of the environment and manage resources for the long term.

Reflecting on the charts and tables in this section we might ask, “How can we have expected so little of ourselves and so little for our families? And “How can we tolerate such poor performance from our leaders?” If we benchmark our performance on social factors against the best in the world, as a good manager should, we would find a failure in leadership for the last 30 years. On almost every social indicator our position is poor and declining.

True cost accounting can help reverse this trend. One of the key tenets of management is that what is not measured is not managed. True cost accounting and sustainability reporting bring data and trends into view and encourage innovation and action. Americans are still innovative, energetic and capable, but they have been poorly served by politicians and business leaders.