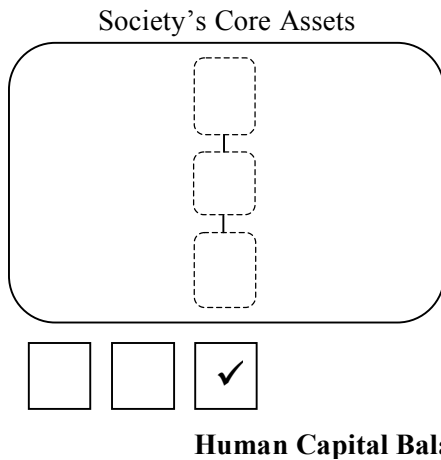


CHAPTER TEN

Toward a Human Capital Balance Sheet

Balance Sheet Definition



In Chapter Three, I set forth an initial description of an Environmental Capital Balance Sheet. In Chapter Five, I proposed a framework for a Resource Capital Balance Sheet. In this chapter, I offer twelve suggestions about the content that belongs in a Human Capital Balance Sheet.

Before moving on to the prose, though, pause for a moment to savor the poetry. We want our civilization to be a healthy garden. And we want ourselves to be the caring stewards of that garden. Just as a caring gardener develops a green thumb, as stewards of the common good we too shall need a green thumb. Human capital is not to be plundered, it is to be nurtured. And if we have a green thumb, we will learn the arts of civic nurture. Just as a watering can is a tool of nurture for a gardener, a balance sheet on human capital is a tool of nurture for stewards of the common good.

Imagine, again, what it will be like to live in a democracy that properly tracks the well-being of its core assets and makes this information instantly accessible to any citizen with internet access. Imagine being well-informed, as a matter of course, because it is sensibly organized and available to all. No matter who I am or where I live, I am able to drill down to the community I live in, or my county or parish, or my state, and see at a glance my community's strengths and weaknesses. I am able, as well, to dig deeper on topics of interest, and get finer and finer resolution whenever I wish. Do I want to know the percentage of adults with advanced degrees? Do I want to know the percentage of adults serving time in jail? Living past 80? Dying before the age of 70? Do I want to know the percentage of children growing up in two parent households, neighborhood by neighborhood? Whatever my interest, the Human Capital Balance Sheet of tomorrow stands ready to deliver the information I want. The more I know, as a gardener, about the condition of the

garden, the more I can do on its behalf.

In the balance of this chapter, I propose ten categories for sizing up human capital. I offer these not as the last word on the topic, but simply as discussion starters.

Health

A healthy civilization is, among other things, a civilization whose people enjoy good health. In principle, we want everyone to enjoy good health, and we want a balance sheet that helps us understand if we have the vitality we desire.

Instinctively we suspect that America still falls short, but we may not know by how much. Researchers tell us that those Americans who are in the poorest ten percent will die, on average, nine years earlier than America's most prosperous, those in the wealthiest five percent. They will also tell us that, of America's 3000-plus counties, there are 900 in which life expectancy for women has declined.ⁱ

To learn about health simply from factoids and anecdotes, though, is hardly what we want. The goal is an organized presentation of all the key measures, so that we can truly understand where America does well, and where it does not. If we come at this in an orderly manner, it won't be long till we have a sensible list of categories.

Let's start with wellness and longevity. As individuals, we know what wellness is. Our weight is good, our blood pressure reasonable, our cholesterol under control, and so on. Let's see if we can find a sensible system for tracking wellness community by community.

We also know what longevity is. We want to stay fit and vigorous into our eighties and beyond. Longevity statistics already exist. Pulling them into the balance sheet should not be that difficult.

With wellness and longevity measures in hand, we'll also want statistics that help us understand sickness and mortality. We will want to know the incidence of fatal illness, of different kinds, and we also want to know the incidence of colds and flu and other infections. We will want to know how many in a community have become overweight, how many have expanded all the way into obesity. We will want to know the rates of cigarette use, and alcohol abuse, and drug abuse. We will want to know injury rates and their causes, accident rates and their causes. We will want to know the incidence of mental illness. America turned its back on the mentally ill quite a long time ago; we need to bring the consequences of our neglect out of the shadows and into the light of day.

In addition, we will want to understand the educational and economic impact of illness. At a minimum, we will want high-level measures of absenteeism, both in our schools and our places of work.

Much of this information is already tracked, but its utility will improve once we unify it by topic and geography into a sensible human capital balance sheet.

Education and Professional Competence

Nothing is more central to human capital than education and professional competence. A population that is well-educated and professionally skilled obviously has a human capital edge over a population that is poorly educated and low on skills.

We design a balance sheet to capture this by starting with the basics: the basic skill categories

of reading and math; the basic knowledge categories of history and science; the basic accomplishment categories of school attendance and high school graduation. Community by community, state by state, and as a nation, we will want to know how our children stand. What percentage have absorbed the education they should, what percentage have reached an advanced level, and what percentage are not yet even proficient? How many have good attendance records, how many do not? How many graduate; how many do not? Once we see this properly summarized, we will begin to understand the quality of today's human capital. Much of this information already exists; adding it to a Human Capital Balance Sheet will take care but will be fully within our reach.

We also want to profile adult competence. This is subtle, and we will want to begin simply. Adult literacy and adult math skills are an essential starting point. The census already captures level of schooling completed. We would also want to know language fluency. This will represent a handicap – for all those not fluent in English – but also an asset – for all those who are fluent in the tongues of America's trading partners. Fluency in two languages is certainly a plus; fluency in three or more, an even greater plus.

Commercial skills are important, and it is important to make a start. Let's capture scientific skills, and years of job experience in the area of one's training. And engineering skills. And marketing skills. And level of experience – how many people have supervisory experience, mid-level management experience, executive level management experience? This barely scratches the surface, but it's a start, and then we build.

Parents and Family

Next I suggest that a common good society wants every child, if possible, to be raised in a two parent family. It won't always happen, but it is always the norm to aim for. We know that American society is deteriorating on this front, and we know that some would be willing to abandon the norm. But we do young children no service by accepting the idea that it just doesn't matter whether an infant is born into a family of two parents or born just to a single mom. It does matter, and if we care about tomorrow's children, as we all should, we want the two parent family to be the norm for every newborn. There are many impediments to this in today's America; I examine this in some detail in the chapter on urban turnaround, Chapter 13.

We need our human capital balance sheet to describe the various family settings in which children are raised, and to help us understand the trends that are now under way. The census captures some of this, but the meaning of the two parent household is shifting as respect for the equality of gays and lesbians is embraced by more and more Americans. If marriage is an excellent idea for heterosexual couples – as it is – one of these days we will surely come to our senses and say, “gosh, marriage is a good idea for gay couples as well.” A smattering of married couples will be lesbian, and another smattering will be gay. And some of those couples will end up raising children. Life for census takers is always interesting.

It is a slow-motion trauma for some. Being an American does mean saying good-bye to prejudice, no matter how deeply rooted the prejudice may be. “Liberty and justice for all” does indeed mean “for *ALL*” and when we salute the flag and say the Pledge of Allegiance it is wrong to cross our fingers behind our backs and whisper “we don't really mean it.”

Back to the central value. The decision to have a child should not be made except by a couple

with a healthy marriage and a commitment to being wonderful parents for the new child. The more often this happens, the better for all. If we want children to grow up strong and optimistic and mature, we must insist over and over on the importance of every young woman and every young man being happily married before they start a family.

And we need a balance sheet that will help us track our progress toward this vision.

Public Safety, Crime, and Incarceration

Within the American population as a whole, there are a few subgroups that lean toward crime. And there are many subgroups that don't. Some neighborhoods are relatively crime-free; others suffer from too much crime, and some are caught in the middle.

There are two ways to approach this as a balance sheet challenge, by demographic group and by geography. The two will inevitably criss-cross. Where criminals are, either because of demographics or because of neighborhood, there crime is.

A sensible Balance Sheet reflects both. It begins with the Who: "Who commits crime?" Demographic groups that are relatively crime-free are in good shape; those that are drawn to crime are in worse shape.

But one must also focus on Where. "Where does crime occur most frequently?" If we are to dial in high levels of resolution by geography and community, crime must be mapped by territory as well as by demography.

The cold hard numbers will tell us that crime and incarceration rates reflect a massive human capital weakness. America's incarceration rate is five times that of its Europe industrial peers, fifteen times that of Japan.ⁱⁱ At least 2.2 million prisoners inhabit America's federal prisons, state prisons, and local jails.ⁱⁱⁱ

Within black America, the imprisonment rate for males is ten times that for females. There are those who say that a young black male who doesn't finish high school has a sixty percent lifetime probability of spending time behind bars. The incarceration rate for Hispanics is double that of the incarceration rate for non-Hispanic whites.^{iv} Most of today's prison inmates were, not that long ago, dropouts from America's public school system.

In the urban turnaround chapter, I interpret these patterns as subsystems within a nationwide spiral of mutually reinforcing failures. Not just in public schools, but in sector after sector, we have chosen our templates poorly and we have replicated them thoughtlessly. The consequences of our choices pull us down, hold us down, and shave away our freedom of maneuver.

We need to teach ourselves to ask the systemic question. How do we create success factors for urban America so powerful that yesterday's failure spiral gives way to a new and much stronger success spiral? This is a path that cannot be delegated; Americans of all races and ethnicities will make the journey together. The Human Capital Balance Sheet helps us begin. And, once we succeed, it will proudly record our success.

Healthy Earnings

Economic well-being is an important facet of healthy human capital. It is also an attribute of healthy economic capital, and I anticipate a lively discussion about how best to reflect the earnings profile of the American people.

We know that human capital suffers when people are in poverty. We want a measure that tells us about poverty, especially in the lowest fifth.

We know that human capital improves when incomes are rising. We want a measure that tells us how the middle three-fifths are doing.

We know that society benefits when entrepreneurs are active, investing money, creating businesses, growing their companies. We want a measure that tells us how entrepreneurship is doing.

And we want to see balance. When the tide rises, does it lift all boats? Or does the tide rise only for the favored few, not for the hard-working many? We need a measure that reflects society's ability to include everyone in a rising economic tide.

Full Employment and Homelessness

When people have jobs, they have opportunities to develop themselves. They can grow their skills; they can raise children more easily; they can participate in their communities with confidence. Full employment is a precondition for healthy human capital. It is a measure, as well, of a successful economy, and perhaps we will want to see full employment reflected as an asset category on the Economic Capital Balance Sheet as well as on this one.

The other end of the same spectrum is homelessness. Without income, without medical or dental care, sometimes mentally ill, sometimes alcoholic, being homeless is a catastrophe, temporary for some, permanent for others. The more homelessness we have, the weaker we are as a society.

Affordability

Is there a wage-price squeeze in America? Families at the lower end of the American wage scale would certainly say Yes, especially those in urban areas with higher than normal housing costs. (Will the current housing collapse have a lasting impact? In America's most crowded urban areas, I suspect not. Whenever demand exceeds supply, housing affordability becomes a terrible problem for Americans in the bottom half of the income ladder.)

Several sets of costs belong in an Affordability measure. *Housing:* Is housing affordable? Can a dad and a mom with two children afford a decent home in a decent neighborhood? In too many markets, high housing costs put enormous pressure on working families. *Medical care:* Can the same dad and mom afford a health care plan that looks after them and their two children? Working families today cannot cover the full cost of health insurance. If their employers cannot help them, they are often out of luck. *Transportation:* Can the kids get to school and back? Can Dad and Mom afford the cost of getting to work and getting home again? Cars are not cheap, and bus service is often unavailable for the trips people have to make. *Food:* Is healthy food affordable for a family of four? The cheapest foods are the ones with the poorest nutritional value, the ones that promote obesity. Obesity in turn threatens long term health and long term employability. *Day care:* If Mom and Dad both work, and the youngest children are not yet ready for school, what will it cost them for day care? *Education:* Even middle class families have to flinch when they see the cost of college for their children. Is the nation losing scientists and engineers and future prosperity because children of middle class families cannot afford the college they need?

We need clarity on the basics - housing costs, medical costs, transportation costs, food costs,

day care costs, education costs. If all those costs are reasonable, even those Americans in the lower third of the work force will be able to keep their heads above water. If all those costs are unreasonable, many families even in the top third will find themselves struggling. I hope we will find an efficient way to capture “Affordability” as a balance sheet category, so that we might know how many households are in good shape economically and how many are not.

Capital Growth

Individuals and families that are not in the habit of saving money are at a perpetual disadvantage. Human capital is stronger when household economic capital is strong. Just as a Human Capital Balance Sheet ought to report earning strength, full employment, and affordability, it should report on savings and capital growth.

As a young man, Andrew Young was one of the black preachers in the civil rights movement of the 1960s. Later, he was President Carter’s Ambassador to the United Nations, and later still, he was the Mayor of Atlanta and helped his city win the 1996 Summer Olympics. Ambassador Young recently looked back on his career as a civil rights champion, and on the days when he argued that progress for black Americans depended on “Democracy, Education, and Religion.” Now, he says, he amends that list: “Democracy, Education, Religion, and Capitalism.”^v Rights are important, education is important, church is important. But the experience of being Atlanta’s mayor taught him that a vital spirit of capitalism is every bit as important as the other three. Save, invest, become an entrepreneur. The focus of Reverend Young’s evangelism has expanded. And his message, it almost goes without saying, applies with equal force to Americans of all races and ethnic groups.

The Balance Sheet should take at least one initial step down this path. It should measure savings and capital growth. How many families are savers? How many are not? The stronger the spirit of saving and investment, the stronger the state of our human capital.

Balanced Lives

In any sensible society, a decent balance is struck between time at work and time at home. We want full employment, but we don’t want people consumed by their jobs and by the time they spend commuting. A balance between work life and home life is one of life’s important intangibles, and because of its importance, we should find a way to treat it as a human capital asset.

Good Neighbors, Good Neighborhoods

If we are good neighbors to one another, all of us benefit. Children are safe. The elderly are safe. People can live full lives, outdoors as much as indoors. Individuals and communities can rise to their potential.

Not every neighborhood in today’s America is safe and congenial for its residents. And when any neighborhood is on the wrong side of safe, everyone suffers. It is widely agreed that we suffer when our health is poor, and widely agreed as well that we suffer when we haven’t the education we need. By the same token, it is equally true that people suffer when they are deprived of decent and safe neighborhoods to live in. Neighborhood health is just as much a marker for human capital health as physical health and educational attainment.

Social Justice

If as a society we say that healthy human capital is a goal, we will surely include in that idea the principle of social justice. When people of color cannot find a job, or earn equal pay, or buy a home in whatever neighborhood they wish, social justice is absent. When women are paid less than men for equal work, or passed over for promotion even though they are equally qualified, social justice is missing. When men who are gay or women who are lesbian are passed over, solely because of who they are, social justice is unattained. A human right is a human right is a human right. A state of social justice is a human capital asset because it protects the basic rights of all individuals.

We know, therefore, that our Human Capital Balance Sheet ought to reflect the absence of oppression, be the oppression a matter of law or solely a matter of cultural practice.

But social justice, as we know, is not simply the absence of oppression. It entails access to opportunity, and it entails an ability to take advantage of opportunity. Society has some measure of responsibility for extending opportunity to all. And each individual has a corresponding responsibility. Life brings many opportunities our way; we are all obliged to prepare ourselves to do well with the opportunities we receive.

It will take us some time to find a proper way to measure social justice in this larger sense, because we will need to devise a satisfactory measure that captures both the responsibilities of individuals and the responsibilities of organizations. Affirmative action is best understood as an obligation both upon those who once abused power, and upon those who once lacked opportunity.

Cultural Particularity and Team Spirit

America is perhaps the most unusual and most admirable society in the world. The American culture has its origins in the English settlements that were planted on the eastern seaboard beginning in the 1600's. Our Constitution, and our principles of republican government and democratic election, were influenced by this nation's English roots.

But what holds us together is not nationality – how many Americans today are conscious of their English ancestors? Nor is it simply the shared use of the English language, regardless of any languages our ancestors may have spoken. What holds us together is a shared belief in American ideals of opportunity and equality, of individual freedom and constitutional order. Anyone who subscribes to these ideals, and takes an oath of citizenship, is welcome to the privileges and responsibilities of citizenship in the American nation.

So we can be Americans of English ancestry, or Americans of Italian ancestry, or Swedish ancestry, or Greek ancestry, or Turkish ancestry, or Japanese ancestry, or Chinese ancestry, or Mexican ancestry, or Gambian ancestry, or Kenyan ancestry, or Indian ancestry. And we can retain a sense of cultural affiliation with our roots, and with our kinsmen who live here, just as we can also embrace and exercise our spirit of Americanism.

We can also be part of a rural hill culture, and be good Americans. We can be Southerners or Westerners or Easterners or Midwesterners and be good Americans. We can be conservative Baptists or mainline Presbyterians or Orthodox Jews or Sunni Muslims or non-believers, and no matter what sub-culture we belong to, we can be good Americans.

Or, to boil all this down to one of the central sticking points in today's America, it is

unworthy of us to look down on one another. Some look down on those who consider themselves rednecks. Others look down on those who consider themselves, say, San Francisco liberals. The list goes on. It is symptomatic of lifestyle consumerism and identity branding, the habit of taking pride in one's own prejudices against others.

I won't try to spell out a balance sheet measure for cross-cultural respect. But I do want to flag this as a topic that calls for thoughtful reflection. A culture that celebrates sneering disrespect back and forth among identity groups is a culture that lacks a sense of teamwork. Healthy teams accept differences and respect people in their particularity and variety. Sick teams despise differences. By trumpeting our prejudices, we advertise our determination to weaken America's capacity for teamwork. Perhaps that's the way to think about this. The asset we want to strengthen is the spirit of respect and teamwork; the liability we want to flag is the habit of cross-cultural disrespect.

Still Ahead: A Balance Sheet Project

Health, educational and professional competence, parents and family, crime and incarceration, healthy earnings, full employment, affordability, capital growth, balanced lives, good neighborhoods, social justice, cultural particularity – twelve ways to wrap our minds around the quality of human capital in our society or any society. As with the other four balance sheets I propose, we have our work cut out for us.

At the same time, we know the benefit we will create. We will understand our strengths, and build on them. We will identify our weaknesses, and together find ways to put those weaknesses behind us.

The deepest benefit of a Human Capital Balance Sheet, as with the others, is that it disciplines our vision of a common good future. It helps us define, tangibly and systematically, what it means to help our society be as healthy as possible.

ⁱ Elizabeth Gudrais, "Unequal America," *Harvard Magazine* July – August 2008. P. 22, citing Majid Ezzati.

ⁱⁱ Wikipedia, "Incarceration in the United States."

ⁱⁱⁱ Bureau of Justice Statistics, Bulletin May 2006. "Prison and Jail Inmates at Midyear 2005."

^{iv} Stanford Criminal Justice Center, Fall 2007.

^v Andrew Young, speech at St. John's College, Annapolis, Maryland, November 16, 2007.