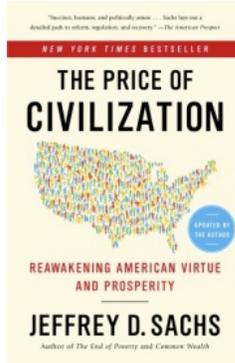


## Book Review



**The Price of Civilization: Reawakening American Virtue and Prosperity**, by Jeffrey D. Sachs; New York: Random House, 2012, 352 pp., \$18 (paperback) and \$40 (audiobook).

Reviewed by R. Paul Herman, CEO, [HIP](#) (Human Impact + Profit) Investor Inc.

“I like to pay taxes,” said Supreme Court Justice Oliver Wendell Holmes, Jr., more than 50 years ago. “With them, I like to buy civilization.” Yes, today’s civilization does require more than just our common commitment to being civilized to each other. The infrastructure of a civilized society also requires funding. “A billion here, a billion there, and pretty soon, you are talking real money” is attributed to Illinois Senator Everett Dirksen (who claims he was misquoted by the media, but the quote was too memorable to have corrected). Today’s crises include a debate on how to adjust the rate of public spending, which is not adequately covered by tax revenues, thus forcing debates on whether to cut services or increase taxes in order to balance budgets and stimulate growth.

Yet the challenges to rekindling prosperity and global stability involve not only rejuvenating economic engines and financial policy but also aspiring to true personal virtue and encouraging community appreciation in pursuit of well-being. *The Price of Civilization* comprehensively details many of the contributing root causes of global malaise and offers Dr. Jeffrey Sachs’s innovative ideas and detailed prescriptions for curing many of those ills.

This is a book every investment analyst and portfolio strategist should read as a comprehensive analysis of a spectrum of core issues faced by society. It is illuminated by numerical evidence of trends and explanations that would delight my former McKinsey managers and mentors. Thoughtful strategies and visions for building a better world fill half the book—which inspires the reader to think big and bold and overcome the petty politics and typical apathy we seem to live with today. As with environmental investing and environmental, social, and government-themed (or ESG) investing, the book has frameworks, metrics, and tools to consider for your own investment analyses and strategies.

*The Price of Civilization* outlines how to invest in the core foundation of society—our human capital. Investing in education and teachers can stir more innovations and efficiencies and build both competitive and comparative advantages. Unleashing creativity and entrepreneurship is essential to the free-market economics that benefit civilizations with well-formed rules. But sometimes these rules need to be instituted by governments to ensure a more level playing field.

This is where society has broken down, according to Dr. Sachs, who describes this process with a focus on how politics has eroded the core belief many citizens have held since World War II that government helps more than it hurts. Due to the policies of Reaganomics, and now tea party libertarians, society has become less effective as governments are increasingly starved of funding. Investing in common services and infrastructure that benefit us all—which was the debate in the 2012 U.S. presidential election—is something we citizens should be delighted to support.

Dr. Sachs calls out the lack of trust in institutions early in the book. A Pew 2010 report cited in the book shows that at least half of Americans believe the following groups have a negative effect on the country: banks, Congress, the federal government, large corporations, the news media, and labor unions. On the positive side, the majority of Americans see institutions such as small businesses, technology firms, churches and religious groups, and colleges and universities as bettering our society and ourselves.

Surprisingly, Dr. Sachs delves more deeply into religion, specifically the Buddhist approach of “mindfulness,” in both the physical and metaphysical center of the book. He springs into a discussion of eight dimensions of mindfulness (“*of self, work, knowledge, others, nature, the future, politics and the world*”) that each of us—and society as a whole—should pursue to bring more well-being into our lives. Surprisingly, the nature section, at only one page—a very light touch, given the tremendous climate solutions we must invent—lacks the depth or thoughtfulness that we expect from this award-winning economist.

A civilization’s return on investment (ROI) must include tactical goals and mileposts, not just strategies and macroeconomic policies. Dr. Sachs’s track record of advising stressed countries, from Latin America to Poland as well as other Organization for Economic Co-operation and Development (OECD) countries, is documented in his other books. Page 186 of this book lays out eight strategic goals (fuller employment, stronger education, reduced poverty, avoidance of eco-catastrophe, budget balancing, good governance, enhanced national security, and increased life satisfaction) for America to pursue with two to four specific, quantitative goals each—which makes the reader wish for the implementation plan for these aspirations. As readers and analysts, we deserve solutions and experiments that we can test, not just the strategies and possible metrics.

From the environmental-focused and ESG-related perspectives, the three eco-goals are a positive step forward, but will these three goals get America to an eco-balanced world? Goal 1 is to have five million electric cars on the road by 2020 (while this is only six years away, the aim here is similar to that of the moon-shot called for by President John F. Kennedy in the 1960s). This goal would support growth of companies like Tesla and the conversion of traditional automakers, but it would not overcome the annual increases in driving mileage by daily commuters and long-haul trucks. Goal 2 is to have low-carbon energy supplies of 30% by 2020 and 40% by 2030. Achieving this goal is already underway if natural gas is counted as a lower-carbon source that displaces coal baseload power for utilities and oil peak turbines—yet it ignores the potential pollution to the water supply. With natural gas, we risk becoming water-dependent in order to be energy-independent. A more aggressive approach would be to scale up the replication of renewable power standards (RPS) from a policy and regulatory compact perspective. This approach was taken in California with its 33% goal and in the northeastern United States through carbon trading by the Regional Greenhouse Gas Initiative (RGGI). The third goal of achieving 17% reductions in greenhouse gases (GHGs) by 2020 (from 2005 standards) seems quite specific (rounded up from one-sixth?) and to be the best type of goal—one that is outcome-specific and that allows for maximum innovation and entrepreneurship by adapting a cleaner fuel mix or even possibly removing fossil-fuel energy production units (as the allies of 350.org are advocating). Yet, these GHG improvements need to be much more aggressive since we have exceeded 400 parts-per-million—past the point of “no return” according to many scientists.

So how does *The Price of Civilization* inform environmental investing? Well, one challenge is that while Dr. Sachs grafts in themes about natural resource scarcity, fuel-price volatility, and potential carbon-tax implementation, these necessary ideas and possible solutions pop up only every 50 pages or so in a 250-page work (the first time in detail on page 60). The eco-themes make up paragraphs, and sometimes pages, but are not well integrated or detailed. While these ideas are certainly not an afterthought, the environmental investor is left wanting for something more like the “eco-wedges” of carbon reduction or estimates of investment like the Copenhagen Consensus calculations, in which scores of initiatives are valued for their total cost in billions, along with their resulting possible benefits. That future book could be called *The Return on Investment of Civilization*. For investors and society, this ROI theme seems to be emerging along with the “green bonds” in France and now the USA, and muni bonds rated for impact, as well as with social-impact bonds that can include an ecological outcome, like SNW Asset Management’s fixed income impact-rated portfolios.

Another element that relates to environmental investing is deciding what we subsidize and what we tax. Current debates about free-market pricing typically ignore the benefits gained from multiple types of subsidies to and tax treatments of coal, oil, and gas

producers and utilities. Some estimates of these subsidies cumulate to an annual US\$450–US\$550 billion worldwide. At the same time, government programs to benefit renewable energy are shifting markets. This has already occurred in China, helping to drop the cost of solar energy globally, and in Germany, which has authorized new regulatory schemes that allow decentralized users to go independent. In the United States, battles over renewable firms result in political critique rather than an enhancement of renewable-energy leadership. Dr. Sachs highlights data showing that current federal subsidies of renewable energy are one-fourth of those during President Jimmy Carter’s push for energy independence in the late 1970s. Unfortunately for environmental investors, energy innovation has been relegated to the private sector since 1980. And in 2010, the top 10 publicly listed companies in energy production allocated more than 95% of future capital spending toward fossil-fuel expansion; less than 5% of future CapEx is currently dedicated to renewable-power-source development for the 10 largest firms.

Dr. Sachs does not analyze the energy efficiency of countries’ gross domestic product (GDP). His interventions in Latin America and Poland and other OECD countries, to date, have sought to restart the factors of production in labor, land, and capital. Yet a core macroeconomic factor is how natural resource intensity—both on inputs as well as outputs—ripples through the future economy. Hedge fund managers today focus on natural resource scarcity and systematically trade on expectations in fuel prices. Only ESG and eco-focused investors appear to be embedding carbon intensity and resource efficiency into estimates of current shareholder value and future changes in pricing. At least one hedge fund’s investment strategy is focused entirely on trading weather futures based on climate models, which increasingly predict a highly volatile world as climate change accelerates.

The growth in revenue from products solving environmental solutions is never recognized in Dr. Sachs’s book. While double-digit revenue gains are realized in markets for renewable energy, hybrid and electric cars, and eco-efficient industrial solutions, a macroeconomic view can’t see the shifting trends until they have already become dominant factors. Analyses of monthly jobs reports indicate that during the years 2002–2011, the segments of the economy associated with positive-impact environmental solutions and products contributed greater and more consistent job growth than did those segments stuck in the old economy (which happens to be destroying jobs frequently).

Dr. Sachs does advocate for taxing fossil-fuel pollutants while also creating tax credits for renewable power. “Tax the bad, and credit the good” is a role that government can choose to play effectively, but entrenched interests who are corrupting Congress have held the government back, says Dr. Sachs. Achieving a carbon-tax, cap-and-trade, or other regulatory compact will take some revolutionary political pressure. Who is the leading force of this shock wave?

The millennial generation will spur society to recognize this opportunity, Dr. Sachs says, and he ends the book with a chapter on this younger generation. As a professor at Columbia University, Dr. Sachs finds that his students' optimism gives him cause for optimism. I find the same in my MBA lectures around the world. Certainly, the millennials are driving awareness of environmental issues like climate change, natural gas fracking, Keystone pipeline risks, and ocean acidification. Millennials, as children of the baby boomers, will gain in power as their parents bequeath their inheritances, which can total up to \$41 trillion of intergenerational wealth in the coming decades. But Dr. Sachs lets the rest of us off the hook by focusing on only the next generation. While looking forward to the future, we need to act today as consumers in what we buy (there's no mention of consumers' buying behavior in the book and how that can cause a CEO to quickly pay heed), how we work, and of course how we invest. Dr. Sachs sees economic policy, tax policy, and markets as levers to pull, but pays less attention to understanding the levers inherent in behavioral economics.

Going forward, as all of us in the ESG field recognize, the forces of nature will increasingly determine winners and losers worldwide. Capital markets will respond, and astute environmental investors will have positioned themselves for many of these volatilities by isolating their portfolios (especially ESG portfolios) from knowable-yet-ignored risks—like greenhouse gas intensity and energy mix as well as natural resource scarcity—and acknowledging the potential rewards from companies that take action to create a more sustainable world.

Dr. Sachs's wide-ranging analyses – which build upon the earlier works of Herman Daly, E.F. Schumacher, Bob Costanza, Amory Lovins and Hunter Lovins – give us deeper insight into the macro-forces at work. His goals and metrics for the future help to lay a vision of what is possible. But it's up to us to start acting our way into that future, as millennials and boomers as well as those of the gen X and gen Y generations. The “price” of civilization is higher than we can afford right now. But the price of not having a civilization is even higher. Estimates of the sacrifice, economically, still total less than 5% of GDP to make smart investments in the future to protect against climate change, while 20% of GDP, globally, may suffer if we make no changes. Back in 1989, a group of global scientists calculated that for every one dollar of economically counted GDP, we received another two dollars of uncounted and unpaid-for services from nature's ecosystems. Since nature doesn't collect user fees, governments must do so, particularly if societies suffer from the “tragedies of the commons” by using up or destroying the requirements for life.

As the late Ray Anderson has said, “What is the business case for maintaining life on earth?” We need to think more in terms of the ROI of our next decisions, where *R* (return) includes quantitative measurable improvements of our living ecosystems, and *I*

(investment) is put in the long-term context of having a civilization to write about in future history books.

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