

# Being up front about Social Cost

## A roadmap

### INTRODUCTION

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Inequality has been recognised as an increasingly pressing problem of our times. Currently, citizens and consumers have little information about how the money they spend is distributed among those involved in the conception, production and sale of the goods and services purchased. A [recent article](#) suggests empowering them: by providing information on such inequalities, citizens can incorporate the related “social costs” into their purchasing decisions.

This document sets out a brief roadmap for the implementation of this proposal, via a public, free mobile application. It sets out the principles and a sketch of some of the major steps.

Implementation of presentation of social cost information at the point of sale requires:

- Determining the measure of social cost to provide to users.
- Building and maintaining the infrastructure for entering and collecting the data required to calculate the social cost, and for its calculation.
- Designing, implementing and maintaining an app that consumers can use to access the social costs of goods and services.

This document considers these three phases in turn.

### MEASURING SOCIAL COST

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There is a large academic literature on the measurement of inequality.<sup>1</sup> There are a variety of reasons for wanting a measure of inequality, and different measures may be more or less appropriate for different uses. It is thus important to set out the principles guiding the development of an appropriate measure of inequality or social cost to be presented to customers (see box).

Some brief comments on these three principles:

- One challenge for similar measures, such as Corporate Social Responsibility (CSR) measures, is that the evaluation of measure involves judgements and input going beyond objectively measurable, easily verifiable data. These renders such measures more open to manipulation and undermines citizens’ trust in them. **Objectivity** aims to limit such possibilities.

#### Social cost measure ; principles

A measure of the social cost, reflecting the inequality among those involved in the existence of a good or service on the market must be:

- **Objective.** It must be easily calculable from impartial, objective and simply verifiable data (e.g. tax returns, pay slips).
- **Conceptually clear and simple.** It should give information whose meaning can be easily grasped – and used – by all citizens, and not just experts.
- **Exhaustive and complete.** The social cost should encompass everyone involved in guaranteeing the existence of the good or service on the market, including notably the phases of financing, conception, management, production, transport, marketing and sale.

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<sup>1</sup> See for instance Peter Lambert, *The Distribution and Redistribution of Income: Third Edition* (Manchester University Press, 2001); Satya R. Chakravarty, « Inequality, polarization and poverty », *Advances in distributional analysis*. New York, 2009, or <https://wid.world/methodology>.

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- Information on the social cost will only be used by citizens if it can connect with basic intuitions and opinions on social justice. This can only be the case if the information provided is of the sort that can be understandable easily and quickly, without specialist knowledge. It must also be clear and unambiguous in meaning, to avoid undermining trust. **Conceptual simplicity** is motivated by such considerations. It may rule out several existing and widely used inequality measures. For instance, the popular Gini measure (by a number between 0 and 1) will not be easily understood by many. Or, to take another example, it is unclear whether a measure putting a monetary value on the social cost (i.e. as if it were translatable into euros) would be trusted or properly understood (due to doubts about whether the euro figure “comes from”).
- **Exhaustivity** implies that calculation of the social cost should include subcontractors, suppliers as well as financiers and support staff, and take account of all remuneration, including bonuses. Any lack of exhaustivity would leave open the possibility of firms manipulating their social cost scores by employing special schemes to this effect (e.g. outsourcing production).

Note furthermore that many standard inequality measures are focussed on the inequality in, say income or capital across a society, area, region or country, rather than some indication of the inequality involved in the distribution of money spent on a good among those contributing to its existence on the market. This difference may be relevant. For instance, a measure based on the income obtained for one’s contribution to the conception and production of a good involves the time spent on production, which may be a confounding factor.<sup>2</sup> It may take the factory worker to earn more than the manager if the former spends 1 hour per good and the latter 1 minute. This suggests that an appropriate measure should be based on the salary, or similar factors.

One simple measure that largely adheres to the previous principles is the **max-min ratio**: the ratio between the highest and lowest hourly salary among all those involved in the financing, conception, management, production, transport, marketing and sales of the good. It is objectively calculable on the basis of tax returns, salary slips and the like. It is conceptually easy to understand and *grasp*: we all see what it means for top management or financiers to earn 130 times more than the factory worker. It is, by definition, exhaustive.

However, the max-min ratio is not without its practical challenges: they include how to associate a “salary” to capital and how to incorporate occasional suppliers (e.g. a law firm hired for a one-off case). Such challenges need to be met whilst upholding the objectivity principle. Moreover, the max-min ratio only looks at the extremes of the distribution, ignoring what happens in between: such reductivity may be the price to pay for conceptual simplicity.<sup>3</sup>

The max-min ratio is not the only measure of social cost; it may not even be the best. It is, however, a start, and may be sufficient for the early stages of the other phases of the project.

However, for proper treatment of the measurement issue, an appropriate course of action would be to form a **steering committee**, consisting mainly if not entirely of (principally academic) experts in

Social cost measurement ; proposal

1. Start with **max-min ratio** as measure of social cost
2. Set up **measurement steering committee** to evaluate and oversee social cost measurement

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<sup>2</sup> The income obtained from the production of a good is, in typical cases, the salary multiplied by the time spent on its production.

<sup>3</sup> Note however that the min-max ratio implies upper and lower bounds for other, more standard inequality measures (Gini, Theil etc.), so a decrease the min-max ratio implies that the worst case inequality under any other measure is also decreasing.

inequality measurement, with ideally some high-profile members. Its role would be to evaluate measures of social cost, according to the principles set out above and others deemed relevant, and propose improved measures where possible. It will also consider and advise on complex or borderline cases, such as those mentioned as challenges above.

## COMPILING SOCIAL COST

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The central, and most challenging, implementation phase involves the compiling of relevant data, its monitoring and verification, and its use to calculate social cost for particular goods and services. Technically, this would come in the form of a database of social costs, and the “raw” data used to calculate them, that would feed any app. Again, a first step is to set down some principles guiding this phase. The proposed principles (see box) deserve several remarks:

- **Transparency** is essential for user confidence and accountability. Confidence: citizens can check the sources of a given social cost whenever they want. Accountability: transparent data allows independent checks of the data, from third parties (e.g. journalists), which is especially useful in cases of self-reports (see below).
- The general goal is to make **social costs freely available** to citizens, in an appropriate format, at the point purchase. A database does not suffice to achieve this goal; hence the development of an app to provide the required information at the appropriate moment (see the next phase of this project). However, there is no need for the app to have sole access to social costs; they should be freely available, in an appropriate (i.e. easy to use) format, to any other app or body wishing to use them. For instance, even if they were not involved in developing a social cost app, Yuka should be able to provide social costs if it wished. Such third-party informing would only improve awareness of social costs.
- Necessary to the conception of informing citizens of the social cost of their purchases as a way of alleviating severe inequality is the fact that the relevant information is always provided. It is at least as important for a consumer to know about “bad cases” – that a good has a high social cost – than “good ones”. **Comprehensiveness** of the database guarantees that some social cost indication can be given in all cases; it also ensures that companies cannot avoid having their social cost presented by simply failing to report (see below).
- **Independence** is essential for user trust. It helps guarantee, along with the non-profit nature of the overseeing body, the objective and exact nature of the data, insofar as it places an obstacle to one line of possible manipulation. One interesting issue is the extent of government implication in the oversight of the database (since tax returns provide useful data, it evidently has a potential role in providing and verifying data). In the light of limited trust in government in some quarters, aligned with the potential relevance of social cost to international trade negotiations (to the extent that production chains and financing cross borders) where it could be used as a “bargaining chip”, there are arguments for keeping oversight independent from government. By contrast, oversight should be in the hands of a

### Social Cost Database ; principles

A database of social costs must be:

- **Transparent.** All data and their sources for social cost calculation are publicly and freely available (and, if possible, referenced), as far as privacy laws allow.
- **Freely available.** The social cost for a given good or service is freely available in an appropriate format.
- **Comprehensive.** The database should underlie assignments of social cost to every good and service on the market.
- **Independent and non-lucrative.** The database is overseen and ran by an independent body.

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trusted body, or a consortium of trusted bodies, potentially including NGOs, research institutions (specialised in inequality), press organisations, as well as, if the previous considerations are overruled, supranational (UN, EU?) or national bodies (governments).

In practice, implementation of a social cost database could be in the form of a web-portal in which companies can voluntarily enter the information required for the calculation of social costs for various products, along with appropriate testifying documents. This could be in the style of existing portals for eco-labels (see [here](#) for one example). The information required depends on the measure of social cost adopted (with more complicated measures requiring more information), but in the case of the max-min ratio, data such as the highest and lowest salaries in the company (though not the identities of those receiving them), as well as the names of suppliers, service providers, financiers and so on would be needed. One can imagine a system in which these reports are (automatically) cross checked with government data (e.g. tax returns), or under which such documents are provided.

It will also be necessary to compile a database of “typical worst-case” social costs per type of good, production region, company size and other relevant parameters, in a somewhat analogous way to existing databases of environmental impacts for various types of production processes, such as the one established by [Ademe](#). This database can be used to give a “default” social cost to products for which no information has been provided by companies. Using a worst-case social cost as default for such products would incentivise companies to provide their social cost information (without needing legislation to render it obligatory).

In terms of planning, the adjacent box provides a simple proposal. Note that, as long as independence of oversight is guaranteed, financing and oversight need not be provided by the same consortiums. Of course, it will doubtless be more feasible to begin by developing the tool for certain categories of goods, before extending out to other goods (and services).

#### Social Cost Database; plan

1. Enlist expressions of interest; form oversight consortium, and obtain financing.
2. Design and develop web-portal and database infrastructure, either relying on the resources or expertise of oversight partners, or on external contractors.
3. Develop “default” score database (in collaboration with the social cost measure steering committee).
4. Dissemination and implementation (in tandem with app).

## COMMUNICATING SOCIAL COST

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The general aim is to provide information on the social cost of a good or service at the point of purchase. The information in the social cost database constructed in the previous phase needs to be made available in an appropriate, easily accessible and easily understandable way. One simple way of doing so would be to build a (mobile) application which provides the social cost (e.g. max-min ratio) for any product searched for, using for instance the bar code.<sup>4</sup> A model for such an app is [Yuka](#), which provides nutritional evaluations.

The principles underlying the app are the same as those underpinning the development of the social cost database: notably the app should be free at point of use, and the information provided should be

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<sup>4</sup> In a later stage, when services are incorporated, alternative methods for searching for products may be required.

transparent, comprehensive and ensured by an independent body. One further principle may be pertinent: **extensibility** (see box). Note that these principles do not preclude the app being developed in association with or entirely by a third-party body, as long as that body does not impinge upon the independence of the social cost information relayed. Of course, a risk to be evaluated before going along this path is that of confusion among users about the independence of the data, given the potentially lucrative “presentation” of the app.

The possibilities include:

- Using Yuka itself. It could be used as the main vector for communicating social costs.
- Developing the app in collaboration with government. It could develop a Yuka-type app, perhaps connected to other services, to inform users about social costs. This may be useful insofar as it could inform about other relevant characteristics of products (see box).
- Developing the app independently. Future collaborations with third parties may be possible, but would come at a later stage. In this case, financing would need to be raised for development and maintenance.

#### Beyond Social Cost: extensibility

The underlying philosophy behind the social cost proposal is that providing full information at the point of purchase about the inequalities involved in the existence and marketing of a product may lead to improved purchasing decisions, with knock-on effects for inequality in society more generally.

Elements of this proposal are specific to the issue of inequality – in particular, the reliance on peoples’ intuitions about social justice – but much of it can be possibly extended to other domains. Most notably, one might hope for similar effects for environmental information provided universally at the point of purchase (rather than just in the form of eco-labels on some products).

Whilst compiling the relevant environmental data goes beyond the scope of this project, a desideratum is that the app be **extensible** so, if in the future such data becomes available, it can serve as a single port-of-call where all information – social, environmental, and beyond – can be accessed at the point of purchase. (This may even provide a useful development of government environmental information policy; see [here](#)).

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