

# Counting the Costs

How Corporate America loses  
**\$4,097,400,000,000**  
every year.  
Sort of.

By Matthew Budman

**Y**ou have to wonder how corporations make any money at all. Not only do they struggle to cope with globalization, labor shortages, and a lagging economy—they lose unfathomable sums to everything from illness to fraud to computer problems to employee anxiety. Just check out the list of figures at right—figures that purport to catalog the billions of dollars that these maladies “cost” U.S. corporations every year.

Drawn from Websites and magazine and newspaper articles over the last couple of years, they're numbers generated and publicized by interest groups, by activists, by consultants, and—surprisingly often—by government agencies. The figures are cited as evidence, to make political points, to sell services, to emphasize an issue's importance.

But when you total this column of numbers—by no means a comprehensive list—something doesn't add up. The bottom line comes to some \$4.1 trillion a year—well over a third of the U.S. gross national product.

Now, sure, some of these items overlap a bit, which is understandable considering they're from different sources, and a few are the high end of an estimated range. But still—more than \$4 trillion?

“Unless *losing* is defined in a perversely generous way, the figure of \$4 trillion is ridiculous,” says Temple University professor John Allen Paulos, author of *Innumeracy* and *A Mathematician Reads the Newspaper*.

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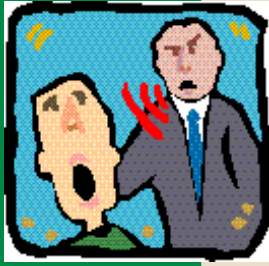
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Indeed, what do *losing* or *costs* mean in the case of these statistics? “At the very most, I suppose what is meant is that they are missing the opportunity of *making* an extra \$4 trillion—but that's extremely hard to quantify,” says U.K. economist David Boyle, author of *The Sum of Our Discontent: Why Numbers Make Us Irrational*.

The assumption, then, is that if every company were served by perfectly efficient equipment and supply chains that never broke down—and were staffed exclusively by trim, emotionally stable, scrupulously honest employees who never fell ill, got distracted, had family problems, or made a personal phone call or sent an e-mail on company time—Corporate America would find itself \$4.1 trillion richer.

But of course, that's not the way things really work. There's no outlay

# "...costs U.S. corporations — billion annually"



\$438 billion	lost health and productivity of office environments
400	employee fraud
400	bullying
355	disengaged employees
300	stolen information
285	turnover
225	illiteracy
148	employee alcohol abuse
120	insurance fraud
113.5	musculoskeletal disorders
100	sleep disorders
100	change-induced stress
100	industrial espionage
100	bad intranet design (global)
98	drug abuse
94	mental disorders
69	cancer
63	Web surfing
60	lack of basic skills
50	smoking
50	disk-fragmentation problems (global)
47.6	obesity
44	depression
42.3	anxiety
40	telemarketing and direct-marketing fraud
36	workplace violence
33.2	Alzheimer's disease
30	lack of information and technology literacy
29	transmission and distribution power outages
29	lost hours spent on eldercare issues
20	product counterfeiting
17.1	computer viruses
10	computer crime
10	shoplifting
10	check fraud
6	robbery and burglary
5	business interruptions from power outages
5	domestic violence
4.3	lost Web sales due to slow download speed
4	computer network downtime
3.4	traffic delays in moving goods and people
3	absenteeism caused by poor child care



of \$4.1 trillion that vanishes as problems reveal themselves; otherwise we'd hear about *spending* rather than *costing*. In many cases, an expense labeled as a cost for one sector of the economy is revenue for another. Most times, no money changes hands at all. For instance, that \$63 billion of employee time devoted to Web surfing may be routine downtime that workers find essential to high performance. The "cost" is spurious as well as hypothetical—a factoid rather than a fact. (It's significant that the \$63 billion figure comes from Websense, a software firm pushing programs to monitor and curtail employee Internet use.)

## Through repetition, guesstimates become hard statistics.

And there's another explanation for that third-of-GNP bottom line: "double counting," says Conference Board economist Ken Goldstein. In fact, it's often far more than double. Consider the case of an overweight smoker who is diagnosed with cancer and, disengaged and depressed, searches the company intranet and the Web for information on his illness. His lost productivity can be slotted into any or all of seven different categories—most likely all seven, depending on the interest groups involved.

Indeed, most of these numbers are generated by organizations or industry groups with concrete agendas and interests. But many of the most startling numbers originate with government agencies, particularly the National Institutes of Health, which in separate documents assigns tens of billions in costs to each of a host of maladies, many through apparently precise calculations but some seemingly from thin air.

Other agencies get into the act as well, producing figures even larger. On a U.S. Department of Energy Web page about "intelligent" building systems, the statement is made: "The lost health and productivity of office environments alone costs U.S. businesses more than \$438 billion per year." There's no explanation or breakdown of this astonishing figure—more than \$7,000 per office worker per year!—and phone calls to the DOE failed to produce anyone to answer questions about the number.

In the private sector, numbers are flung about with abandon, though not always reckless. The Sibson Con-

sulting Group, for instance, offers detailed breakdowns of studies to back up its jaw-dropping estimates of turnover costs in different industries. How did Sibson chairman Jude Rich arrive at a \$285 billion estimate for what turnover costs Corporate America each year? Replacing a worker, Rich says, costs the company perhaps half his salary in recruiting and training, depending on the sector. Sibson calculates that some 19 million Americans change jobs each year, and since the average U.S. worker earns around \$30,000 annually, the total comes to \$285 billion. That figure is a bit shaky, since lower-earning jobs have higher turnover, but you get the idea. The \$285 billion, Rich says, is tangible money out the door—and it's only "the tip of the iceberg. The indirect costs—opportunity costs, productivity-related costs, lost accounts—are much higher."

Similarly, the comprehensive Website of Tim Field, a U.K. expert on

the subject of workplace bullying, goes into great detail in laying out his calculations of the costs of bullying. Every variable in those calculations is debatable, but at least Field puts his figures on display and responds cordially to outside queries.

Plenty of other people and organizations simply offer numbers *sans* explanation or backup; when pressed, they cite some item plucked out of context from some article that mentions some study in passing. Through repetition and the stripping away of qualifiers, guesstimates become hard statistics.

"Many writers and commentators use numbers more for decoration than to impart any real information about magnitudes," Paulos says. "And most people have only the haziest idea of the difference between a million, a billion, or a trillion dollars, so '\$250 billion' doesn't mean much to them."

Boyle agrees: "I don't think anyone can comprehend it—unless they're Bill Gates," he says. "Do most people, for example, picture \$438 billion in their head as much different from \$438 *million*? The idea of using numbers to make people change their minds in this way began with people like Robert Malthus and other social reformers in the 19th century—they called them 'moral statistics.' But moral statistics are now so overdone that I don't think they have the power to move people anymore.

"These numbers are being used in the way that medieval historians used figures," Boyle continues. "Medieval manuscripts say, for example, that King Arthur personally killed 10,000 people in battle. What they mean is 'a lot'—and that's how these figures are used. Many of them are trying to communicate things that can't actually be quantified, but unfortunately, we live in a society that discounts anything that can't be put into figures."