

Pegasus



A newsletter for the Caux Round Table Network
looking at business above the clutter and confetti

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Moral Capitalism At Work

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Pegasus

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INTRODUCTION

This issue of *Pegasus* changes pace: from analytical commentary to reporting on contemporary realities.

Ethics and responsibility, whether framed as deontological necessity, utilitarian advantage or simply as virtue in action, always expect that their demands will be operationalized in reality, with consequences to occur, and provide worldly answers to questions about who will or should benefit and who may not.

To me, a suitable metaphor for responsibility is throwing a stone into water: spreading ripples disturbing the status quo of the water are inevitable.

Refusal to take responsibility has the same effect as assuming its burdens: the vectors of reality shift as a result of the decision and its corresponding action.

Thinking abstractly about corporate social responsibility or business ethics has its place in our lives to be sure but so, too, does absorbing what ethics and responsibility can and cannot accomplish in our various settings of power and aspiration.

We have selected three timely realities for inclusion in this issue: first, is Apple CEO Tim Cook's open letter on the question of encryption in cell phones; second, an article from the Wall Street Journal on the overlooked but determinative need to think about intangible assets in the management of stakeholder relationships; and third, the report of government failures to provide the people of Flint, Michigan, with potable water.

Each item is preceded by a short comment looking at its implications from the Caux Round Table's point of view.

Stephen B. Young
Global Executive Director
Caux Round Table

Zero-Sum Alternatives and Suboptimal Results

Recently, Tim Cook, CEO of Apple, published an open letter to his customers, but really to the general public, advocating non-cooperation by Apple with government security agencies, in this case the FBI, in seeking to de-encrypt an Apple cell phone.

Cook was essentially making an argument from ethics and responsibility, arguing that the moral good of personal privacy needed to be protected by his company. In effect, he was arguing from the moral, perhaps even Kantian, principle of inherent human dignity. Personhood, from this perspective, throws its protective mantel over material expressions of the self, demanding that others and society give way to whatever the person has chosen to do in the way of self-expression.

The U.S. government rejected this claim of moral priority for persons and raised against it the moral claim of society to be secure from terrorism and to punish those who commit wrongs against other people, such as killing them, an act made heinous by extinguishing their personhoods.

Cook's letter for me raises wonderfully complex issues of corporate social responsibility ("CSR"). First, it exemplifies the concern a company should take to be concerned for the interests and long-term well-being of its customers. Secondly, it raises the recurring issues of how new technologies should be designed, adapted and put to use through free markets in ways which optimize public and private goods and minimize negative externalities, which are brought into being by its use. Thirdly, the letter poses the question of a private company's obligation as a citizen of society to cooperate with society in the reduction of illegal and illicit behaviors.

As you read Cook's well-written case for elevating the privacy concerns of customers over the security concerns of the community, please do reflect on the enormity of this issue in our time. It is a major CSR issue.

The Caux Round Table ("CRT") Principles for Business provide guidance with three standards to apply. First, Principle #1 holds that private enterprise has obligations to stakeholders other than shareholders. These other stakeholders include customers, employees and the community. Secondly, Principle #2 asserts that private enterprise should contribute to global and local economic and social development through, among other means, innovation in technology and communications.

Thirdly, Principle #7, expanding on the part of Principle #1 which holds that private enterprise shares a part in shaping the future of communities, demands in its own right that private enterprise should not participate in illicit activities.

What the CRT Principles do not do, which is what CSR in general does not do, is provide much guidance when the interests of different stakeholders conflict as they do from time to time over access to data in personal cell phones as between consumers and the state.

In resolution of such conflicts, I suggest application of the old advice to seek moderation and equilibrium – to find a middle way which has flexibility over time, depending on the materiality of the interests in conflict in any given case.

I am also reminded of the wisdom of the adage "avoid the tyranny of the 'or' and follow the genius of the 'and.'" When conflicts are framed as zero-sum or win/lose alternatives, most often, a suboptimal result is reached. But when seemingly inconsistent goals are sought in sequence or partially, then a win/win optimizing result can be discovered.

Stephen B. Young
Global Executive Director
Caux Round Table

A Message to Our Customers

Tim Cook

February 16, 2016

The United States government has demanded that Apple take an unprecedented step which threatens the security of our customers. We oppose this order, which has implications far beyond the legal case at hand.

This moment calls for public discussion, and we want our customers and people around the country to understand what is at stake.

The Need for Encryption

Smartphones, led by iPhone, have become an essential part of our lives. People use them to store an incredible amount of personal information, from our private conversations to our photos, our music, our notes, our calendars and contacts, our financial information and health data, even where we have been and where we are going.

All that information needs to be protected from hackers and criminals who want to access it, steal it, and use it without our knowledge or permission. Customers expect Apple and other technology companies to do everything in our power to protect their personal information, and at Apple we are deeply committed to safeguarding their data.

Compromising the security of our personal information can ultimately put our personal safety at risk. That is why encryption has become so important to all of us.

For many years, we have used encryption to protect our customers' personal data because we believe it's the only way to keep their information safe.

We have even put that data out of our own reach, because we believe the contents of your iPhone are none of our business.

The San Bernardino Case

We were shocked and outraged by the deadly act of terrorism in San Bernardino last December. We mourn the loss of life and want justice for all those whose lives were affected. The FBI asked us for help in the days following the attack, and we have worked hard to support the government's efforts to solve this horrible crime. We have no sympathy for terrorists.

When the FBI has requested data that's in our possession, we have provided it. Apple complies with valid subpoenas and search warrants, as we have in the San Bernardino case. We have also made Apple engineers available to advise the FBI, and we've offered our best ideas on a number of investigative options at their disposal.

We have great respect for the professionals at the FBI, and we believe their intentions are good. Up to this point, we have done everything that is both within our power and within the law to help them. But now the U.S. government has asked us for something we simply do not have, and something we consider too dangerous to create. They have asked us to build a backdoor to the iPhone.

Specifically, the FBI wants us to make a new version of the iPhone operating system, circumventing several important security features, and install it on an iPhone recovered during the

investigation. In the wrong hands, this software — which does not exist today — would have the potential to unlock any iPhone in someone's physical possession.

The FBI may use different words to describe this tool, but make no mistake: Building a version of iOS that bypasses security in this way would undeniably create a backdoor. And while the government may argue that its use would be limited to this case, there is no way to guarantee such control.

The Threat to Data Security

Some would argue that building a backdoor for just one iPhone is a simple, clean-cut solution. But it ignores both the basics of digital security and the significance of what the government is demanding in this case.

In today's digital world, the "key" to an encrypted system is a piece of information that unlocks the data, and it is only as secure as the protections around it. Once the information is known, or a way to bypass the code is revealed, the encryption can be defeated by anyone with that knowledge.

The government suggests this tool could only be used once, on one phone. But that's simply not true. Once created, the technique could be used over and over again, on any number of devices. In the physical world, it would be the equivalent of a master key, capable of opening hundreds of millions of locks — from restaurants and banks to stores and homes. No reasonable person would find that acceptable.

The government is asking Apple to hack our own users and undermine decades of security advancements that protect our customers — including tens of millions of American citizens — from sophisticated hackers and cybercriminals. The same engineers who built strong encryption into the iPhone to protect our users would, ironically, be ordered to weaken those protections and make our users less safe.

We can find no precedent for an American company being forced to expose its customers to a greater risk of attack. For years, cryptologists and national security experts have been warning against weakening encryption. Doing so would hurt only the well-meaning and law-abiding citizens who rely on companies like Apple to protect their data. Criminals and bad actors will still encrypt, using tools that are readily available to them.

A Dangerous Precedent

Rather than asking for legislative action through Congress, the FBI is proposing an unprecedented

use of the All Writs Act of 1789 to justify an expansion of its authority.

The government would have us remove security features and add new capabilities to the operating system, allowing a passcode to be input electronically. This would make it easier to unlock an iPhone by "brute force," trying thousands or millions of combinations with the speed of a modern computer.

The implications of the government's demands are chilling. If the government can use the All Writs Act to make it easier to unlock your iPhone, it would have the power to reach into anyone's device to capture their data. The government could extend this breach of privacy and demand that Apple build surveillance software to intercept your messages, access your health records or financial data, track your location, or even access your phone's microphone or camera without your knowledge.

Opposing this order is not something we take lightly. We feel we must speak up in the face of what we see as an overreach by the U.S. government.

We are challenging the FBI's demands with the deepest respect for American democracy and a love of our country. We believe it would be in the best interest of everyone to step back and consider the implications.

While we believe the FBI's intentions are good, it would be wrong for the government to force us to build a backdoor into our products. And ultimately, we fear that this demand would undermine the very freedoms and liberty our government is meant to protect.

Measuring Intangible Assets

The following article from the Wall Street Journal brings to light a vital next step in the development of corporate social responsibility (“CSR”) theory and practice. The article discusses the growing problems for accountants, investors and financial theory associated with understanding the contributions of and way to measure intangible assets.

The article reports that as capitalism continues its unprecedented course of innovation and changing economic realities, intangible assets are becoming more and more important to the fortunes of private firms.

Because these kinds of assets are not well measured, they are not properly managed.

As I point out in my most recent book, *The Road to Moral Capitalism*, intangible assets intersect with CSR requirements. Better measurement and management of intangible assets will lead to more robust CSR and better sustainable development on the part of firms everywhere.

In short, most intangible assets – brand value, goodwill in the minds of consumers, employee engagement and creativity, customer centricity and support from communities – arise from stakeholder relationships. The highway to more value for companies is good management of stakeholder relationships.

We can also think of intangible assets as various forms of social, moral and individual capitals. They are assets, but not of the traditional, tangible kind. They reflect inputs from social factors, ideas, values and associated behaviors and the contributions of individuals to the collective venture which produces wealth.

Giving more honor and prestige to intangible assets will promote better standards of CSR performance in the marketplace and create more wealth for companies, society and individuals.

Stephen B. Young
Global Executive Director
Caux Round Table

Accounting's 21st Century Challenge: **How to Value Intangible Assets**

Issue takes on growing significance
as companies rely more on holdings
like brands, data and algorithms

Wall Street Journal

By

VIPAL MONGA

March 21, 2016 8:05 p.m. ET

When RadioShack Corp. filed for bankruptcy protection last year, it raised more than \$170 million by selling such holdings as real estate, leases and inventories of smartphones, computer cables and cameras.

But the retailer's books didn't acknowledge two of its most valuable assets: its brand and its customer data.

How do you attach a price tag to something you can't see or touch?

The question is increasingly significant for investors as more companies collect information about their customers and use it to develop products and services. Some companies rely on the hipness of their brands to propel sales.

Assigning a value to a physical asset like a store or equipment is relatively easy. But, in the murky world of intangible assets, the calculations are squishy. The problem of how to value such assets has vexed accountants for decades.

Under current accounting rules, U.S. companies don't record those items on their books as assets. "It's 19th-century accounting," said Baruch Lev, an accounting and finance professor at New York University's Stern School of Business.

The absence of abstractions like brand value on corporate balance sheets prevents investors from properly gauging their risks, said Mr. Lev. "It's an incredibly important issue," he said. "Investment in intangibles is almost completely obscured from investors."

Altogether, companies in the U.S. could have more than \$8 trillion in intangible assets, according to Leonard Nakamura, an economist at the Federal Reserve Bank of Philadelphia. That's nearly half of the combined \$17.9 trillion market capitalization of the S&P 500 index.

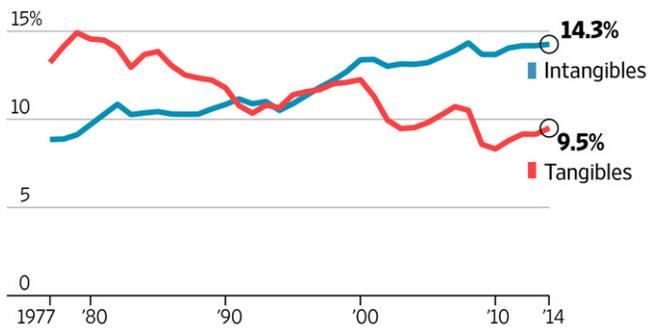
These days, companies put far more money into nonphysical assets, such as customer databases, than they do in building new factories. Companies invested the equivalent of 14% of the private sector's gross domestic product in intangibles in

2014, according to research by economist Carol Corrado. The investment in physical assets was about 10% of that sum. That's essentially the reverse of 40 years ago, when 13% of private-sector GDP went to tangibles and 9% to intangible assets.

Last month a small group of researchers at the nation's accounting standards-setter began grappling with the idea of updating its rules to recognize the growing importance of intangibles. The effort is still in its early stages, but the Financial Accounting Standards Board is considering adding the topic to its rule-making agenda. That could lead to a new rule requiring companies to bring those assets onto their books.

Intangible Investment

Investment rates in assets, as a percentage of private-sector GDP



Source: Carol Corrado and Charles Hulten

THE WALL STREET JOURNAL.

The FASB has weighed the question before, but got hung up on key issues: For example, should the value of intangibles be based on how much they cost to create, or should company management have to estimate the fair value of those assets?

Companies also need to measure value over time. While there are well-established ways to determine the depreciating value of a computer, it's much harder to do so for such things as trademarks, patents or customer relationships. So far, the FASB hasn't been able to find a solution in which the benefits of reporting intangibles outweigh the costs, according to a spokesman.

"It's definitely possible to value intangibles," said John Rainey, chief financial officer of digital-payments company PayPal Holdings. "But it represents another burden. The question is: how much incremental work does it take?" If the FASB adds intangibles to its agenda, it could be years before it comes up with a new rule. It took a decade of debate and revisions to overhaul rules for lease accounting that go into effect for public companies at the end of 2018. That rule, which requires companies to bring operating leases onto their books, could swell U.S. corporate balance sheets by \$2 trillion overall, according to some estimates.

The addition of intangibles would likely have much greater impact, said PJ Patel, co-chief executive of Valuation Research Corp.

Sometimes, such as after an acquisition, companies are required to value intangible assets. The buyer must itemize intangibles like brand value and client lists, and update their value annually.

The accounting department at Perrigo Co., spends weeks at the end of every year valuing and auditing intangibles that the Dublin-based pharmaceutical company has purchased over the past several years. Doing the same every quarter for earnings reports would be "a huge undertaking," said finance chief Judy Brown.

Businesses that file for bankruptcy value their intangibles, because those assets can be sold for millions. That, too, is a cumbersome process.

Putting a value on RadioShack's intangibles and selling them took about eight weeks, said David Peress, an executive vice president of valuation firm Hilco Streambank, who advised the company on the sale. Its brand and its customer data fetched \$26.2 million.

Corporate borrowers also often use their brands to backstop loans. Ford Motor Co., for example, borrowed \$23.6 billion in 2006 by putting up virtually all of its assets—including its blue Ford logo—as collateral.

Some investors and analysts say they don't need to know the specific value of intangible assets like data. They say a company's stock price reflects the market's appraisal of those assets.

Take Facebook Inc. The stock market values the social-networking company at nearly \$320 billion. As of Dec. 31, its assets minus liabilities totaled \$44.2 billion. The difference between the two could serve as a proxy for the value of Facebook's vast troves of user data, the algorithms it creates to mine that data and its brand.

That would put the value of Facebook's intangibles at about six times that of its tangible assets, such as cash, property and equipment.

But there's no way to really know, said Ms. Corrado, the economist, who now works for the Conference Board. "You're leaving a lot to the imagination."

Public Office is a **Public Trust**

Since 2002, the Caux Round Table (“CRT”) has been firmly of the opinion that business ethics and corporate social responsibility (“CSR”) are hard to live by on the part of companies trying to do business under political regimes which are unethical or irresponsible in their duty to take due care of the welfare of their citizens.

The CRT believes that the effort to promote CSR, now more and more thought of as “sustainable development for all,” requires parallel efforts to simultaneously promote ethics and responsibility on the part of governments.

For the implementation of the new Sustainable Development Goals, the U.N.’s Economic and Social Council now speaks of “cross-sector collaboration” among governments, businesses and NGOs. Such collaboration cannot reach success unless each participant lives up to its special responsibilities.

Thus, governments need to fully understand the requirement that civil and elected officials are in office to serve, not to exploit or ignore and especially to instantiate a robust consciousness of this understanding in the minds and hearts of their functionaries. The education and training of elected officials in the ethics of their vocation is another demanding challenge.

In a sense, the CRT has adopted for governments and politicians the ethical standard of Cicero that *salus populi suprema lex* - the well-being of the people is the highest law. But we tend to express it with the general principle that “public office is a public trust.”

To better implement such an ethical standard, the CRT recommends certain principles for government to be used in the execution of their trust responsibilities. They can be found on our website: www.cauxroundtable.org.

The repeated failures of government which brought tragedy to the people of Flint, Michigan, in the form of unsafe water are perhaps an archetypical instance of breach of the public trust on the part of administrators.

In Flint, the poverty and minority status of most of its citizens seem causally connected to the myopia and mechanistic uncaring “professionalism” animating the administrators holding discretionary power over the city’s water system.

After public protest, the political establishment of Michigan responded in manner typical of bureaucracies: a study was commissioned to look into the failures and make recommendations for remedial changes.

The report of the review commission follows.

It deserves reading as a source of revealing insights into the shortcomings of government when officials lose sight of their primary ethical obligation to serve as a wise and good fiduciaries for the people.

Stephen B. Young
Global Executive Director
Caux Round Table

Executive Summary of the Flint Water Advisory Task Force

Executive Summary

Summary Statement

The Flint water crisis is a story of government failure, intransigence, unpreparedness, delay, inaction, and environmental injustice. The Michigan Department of Environmental Quality (MDEQ) failed in its fundamental responsibility to effectively enforce drinking water regulations. The Michigan Department of Health and Human Services (MDHHS) failed to adequately and promptly act to protect public health. Both agencies, but principally the MDEQ, stubbornly worked to discredit and dismiss others' attempts to bring the issues of unsafe water, lead contamination, and increased cases of Legionellosis (Legionnaires' disease) to light. With the City of Flint under emergency management, the Flint Water Department rushed unprepared into full-time operation of the Flint Water Treatment Plant, drawing water from a highly corrosive source without the use of corrosion control. Though MDEQ was delegated primacy (authority to enforce federal law), the United States Environmental Protection Agency (EPA) delayed enforcement of the Safe Drinking Water Act (SDWA) and Lead and Copper Rule (LCR), thereby prolonging the calamity. Neither the Governor nor the Governor's office took steps to reverse poor decisions by MDEQ and state-appointed emergency managers until October 2015, in spite of mounting problems and suggestions to do so by senior staff members in the Governor's office, in part because of continued reassurances from MDEQ that the water was safe. The significant consequences of these failures for Flint will be long-lasting. They have deeply affected Flint's public health, its economic future,¹ and residents' trust in government.

The Flint water crisis occurred when state-appointed emergency managers replaced local representative decision-making in Flint, removing the checks and balances and public accountability that come with public decision-making. Emergency managers made key decisions that contributed to the crisis, from the use of the Flint River to delays in reconnecting to DWSD once water quality problems were encountered. Given the demographics of Flint, the implications for environmental injustice cannot be ignored or dismissed.

The Flint water crisis is also a story, however, of something that *did* work: the critical role played by engaged Flint citizens, by individuals both inside and outside of government who had the expertise and willingness to question and challenge government leadership, and by members of a free press who used the tools that enable investigative journalism. Without their courage and persistence, this crisis likely never would have been brought to light and mitigation efforts never begun.

A Series of Government Failures

Flint water customers were needlessly and tragically exposed to toxic levels of lead and other hazards through the mismanagement of their drinking water supply. The specific events that led to the water quality debacle, lead exposure, heightened *Legionella* susceptibility, and

¹ Direct and indirect economic impacts of the Flint water crisis include, for example, financial consequences to individuals and homeowners; impacts on economic development opportunities and on the revenue base for public services; and the costs of exacerbated requirements for water infrastructure repair and rehabilitation as well as long-term public health and social services.

infrastructure damage are a litany of questionable decisions and failures related to several issues and events, including, but not limited to:

- Decisions related to the use of the Flint River as an interim water supply source.
- Inadequate preparation (for example, staffing, training and plant upgrades) for the switch to full-time use of the Flint Water Treatment Plant using the Flint River as the primary water supply source.
- Inadequate and improper sampling of distribution system water quality, potentially in violation of the Safe Drinking Water Act.
- Intransigent disregard of compelling evidence of water quality problems and associated health effects.
- Callous and dismissive responses to citizens' expressed concerns.
- Persistent delays in coordinating appropriate responses to the resultant public health crises once irrefutable evidence of exposure and poisoning was presented.

We cannot begin to explain and learn from these events—our charge—without also highlighting that the framework for this decision-making was Michigan's Emergency Manager Law. This law replaces the decision-making authority of locally elected officials with that of a state-appointed emergency manager. While one must acknowledge that emergency management is a mechanism to address severe financial distress, it is important to emphasize that the role of the emergency manager in Flint places accountability for what happened with state government.

Our complete findings and recommendations are provided throughout this report and also are summarized at the close of this Executive Summary. They are formulated to offer specific measures to better safeguard public health, enhance critical water system infrastructure, improve governmental decision-making and regulatory oversight, and mitigate the many negative health and economic effects facing the people of Flint. We hope that our findings and recommendations serve as a guide and template for remediation and recovery in Flint, and for safeguarding the health and well-being of residents across our state.

Findings of the Task Force

Note: Footnotes and text supporting these findings and recommendations are provided in the individual sections of the report. The footnotes and text provide substantive detail and important context for our findings and recommendations. Also please note that the findings and recommendations are independent lists; the findings do not correlate one-to-one to the recommendations.

Michigan Department of Environmental Quality (MDEQ):

- F-1. MDEQ bears primary responsibility for the water contamination in Flint.
- F-2. MDEQ, specifically its Office of Drinking Water and Municipal Assistance (ODWMA), suffers from cultural shortcomings that prevent it from adequately serving and protecting the public health of Michigan residents.
- F-3. MDEQ misinterpreted the LCR and misapplied its requirements. As a result, lead-in-water levels were under-reported and many residents' exposure to high lead levels was prolonged for months.
- F-4. MDEQ waited months before accepting EPA's offer to engage its lead (Pb) experts to help address the Flint water situation and, at times, MDEQ staff were dismissive and unresponsive.
- F-5. MDEQ failed to move swiftly to investigate, either on its own or in tandem with MDHHS, the possibility that Flint River water was contributing to an unusually high number of Legionellosis cases in Flint.

Michigan Department of Health and Human Services (MDHHS):

- F-6. MDHHS's lack of timely analysis and understanding of its own data on childhood blood lead levels, along with its reliance on MDEQ and reluctance to share state data with Dr. Mona Hanna-Attisha and Professor Marc Edwards, prolonged the Flint water crisis.
- F-7. MDHHS bears ultimate responsibility for leadership and coordination of timely follow-up efforts in Flint and across the state regarding childhood lead poisoning. While local entities (for example, healthcare professionals, GCHD, health insurance plans) are partners in efforts to protect children from lead poisoning, MDHHS has the lead role and failed to exercise its responsibility.
- F-8. The consequences of lead exposure for Flint residents are expected to be long-term and will necessitate sustained investments in education, public and mental health, juvenile justice, and nutrition needs over the next 10 to 20 years.
- F-9. Too few children in Michigan are screened for lead through routine blood tests as recommended for children ages 1 and 2. Statewide screening goals for children enrolled in Medicaid are met in very few instances at the county level or within Medicaid health plans. This lack of information leaves parents, healthcare professionals, and local and state public health authorities uninformed about the possibility of lead poisoning for thousands of Michigan children.
- F-10. Coordination between MDEQ and MDHHS was inadequate to properly address the public health issues related to water quality in Flint. Communication was infrequent, and when it did occur, the default position was to conclude that the health problems were not related

to the water supply switch – rather than to assume that the problems might be related to the switch.

- F-11. Communication and coordination among local and state public health staff and leadership regarding Legionellosis cases in 2014-2015 was inadequate to address the grave nature of this outbreak. The fact that these cases occurred *while* there were several simultaneous concerns about quality and safety of water in Flint should have caused public health staff and leadership at local and state levels to coordinate their actions to ensure a prompt and thorough investigation.

Michigan Governor’s Office:

- F-12. Ultimate accountability for Michigan executive branch decisions rests with the Governor.
- F-13. The Governor’s knowledge, and that of Governor’s office staff, of various aspects of the Flint water crisis was compromised by the information—much of it wrong—provided by MDEQ and MDHHS.
- F-14. The Governor’s office continued to rely on incorrect information provided by these departments despite mounting evidence from outside experts and months of citizens’ complaints throughout the Flint water crisis, only changing course in early October 2015 when MDEQ and MDHHS finally acknowledged the extent of the problem of lead in the public water supply.
- F-15. The suggestion made by members of the Governor’s executive staff in October 2014 to switch back to DWSD should have resulted, at a minimum, in a full and comprehensive review of the water situation in Flint, similar to that which accompanied the earlier decision to switch to KWA. It was disregarded, however, because of cost considerations and repeated assurances that the water was safe. The need to switch back to DWSD became even more apparent as water quality and safety issues continued and lead issues began to surface in 2015, notwithstanding reassurances by MDEQ.
- F-16. The Flint water crisis highlights the risks of over-reliance—in fact, almost *exclusive* reliance—on a few staff in one or two departments for information on which key decisions are based.
- F-17. Official state public statements and communications about the Flint water situation have at times been inappropriate and unacceptable.

State-Appointed Emergency Managers:

- F-18. Emergency managers, not locally elected officials, made the decision to switch to the Flint River as Flint’s primary water supply source.
- F-19. Treasury officials, through the terms of the local emergency financial assistance loan executed by the Flint emergency manager on April 29, 2015, effectively precluded a return to DWSD water, as Flint citizens and local officials were demanding, without prior state approval.
- F-20. The role of the emergency managers in Flint (in combination with MDEQ’s failures) places primary accountability for what happened with state government.

- F-21. Emergency managers charged with financial reform often do not have, nor are they supported by, the necessary expertise to manage non-financial aspects of municipal government.
- F-22. Michigan’s Emergency Manager Law and related practices can be improved to better ensure that protection of public health and safety is not compromised in the name of financial urgency.

City of Flint:

- F-23. Flint Public Works personnel were ill-prepared to assume responsibility for full-time operation of the Flint WTP and distribution system.
- F-24. The Flint Water Treatment Plant (WTP) and installed treatment technologies were not adequate to produce safe, clean drinking water at startup of full-time operations. Flint’s lack of reinvestment in its water distribution system contributed to the drinking water crisis and ability to respond to water quality problems.
- F-25. Flint Public Works personnel failed to comply with LCR requirements, including the use of optimized corrosion control treatment and monitoring for lead. Flint personnel did not identify residences with LSLs, secure an adequate number of tap water samples from high-risk homes, or use prescribed sampling practices (for example, line and tap flushing methods and sample bottle sizes).
- F-26. Flint Public Works acted on inaccurate and improper guidance from MDEQ.
- F-27. Many communities similarly rely on MDEQ to provide technical assistance and guidance on how to meet regulatory requirements. In the case of Flint, MDEQ assistance was deeply flawed and lax, which led to myopic enforcement of regulations designed to protect public health.
- F-28. The emergency manager structure made it extremely difficult for Flint citizens to alter or check decision-making on preparations for use of Flint River water, or to receive responses to concerns about subsequent water quality issues.

Genesee County Health Department (GCHD):

- F-29. Communication, coordination and cooperation between GCHD, the City of Flint and MDHHS were inadequate to protect Flint residents from public health threats resulting from inadequately treated Flint River water.
- F-30. The rate of follow-up on children with elevated blood lead levels through January 2016 was unacceptable, illustrating a low level of coordination between GCHD and MDHHS and insufficient resources devoted to this task.
- F-31. Management of the Flint River-sourced water supply may have contributed to the outbreaks of Legionellosis in 2014 and 2015 in Genesee County. Although the definitive cause of the outbreaks is uncertain at the time of publication, GCHD and MDHHS did not notify the public of the outbreaks in a timely fashion in order to urge caution.

United States Environmental Protection Agency (EPA):

- F-32. EPA failed to properly exercise its authority prior to January 2016. EPA’s conduct casts doubt on its willingness to aggressively pursue enforcement (in the absence of

widespread public outrage). EPA could have exercised its powers under Section 1414 and Section 1431 of the SDWA or under the LCR, 40 CFR 141.82(i).

- F-33. Despite the clear intent of the LCR, EPA has accepted differing compliance strategies that have served to mute its effectiveness in detection and mitigation of lead contamination risks. These strategies have been adopted at water systems and primacy agencies across the country. Though there may be some ambiguity in LCR rule, none of it relates to what MDEQ should have done in Flint. There was and remains no justification for MDEQ not requiring corrosion control treatment for the switch of water source to the Flint River.
- F-34. EPA was hesitant and slow to insist on proper corrosion control measures in Flint. MDEQ misinformation notwithstanding, EPA's deference to MDEQ, the state primacy agency, delayed appropriate intervention and remedial measures.
- F-35. EPA tolerated MDEQ's intransigence and issued, on November 3, 2015, a clarification memo on the LCR when no such clarification was needed.

Issues Presented by the Flint Water Crisis:

- F-36. The Flint water crisis is a clear case of environmental injustice.

Outro:

The Moral Value of Perfect 10's

The Caux Round Table recently held a series of round table events in St. Paul revolving around the merit and future of work. In preparation for these events, I started reading a book entitled, “*Shop Class as Soul Craft*” by Matthew B. Crawford. A quotation from his work came to mind when reading the pieces for this issue of *Pegasus*.

“I did not even look at the scoreboard when my routine was done in 1976. My teammates started pointing because there was this uproar” (Nadia Comaneci). These remarks highlight an important feature of those practices that entail skilled and active engagement: one’s attention is focused on standards intrinsic to the practice, rather than external goods that may be won through the practice, typically money or recognition. Can this distinction between internal and external goods inform our understanding of work?”

Much of the entirety of Crawford’s work is about the intangible, hidden value of manual labor. Indeed, manual labor as a connection to the world around us and to our true selves. More than simply working with our hands to complete a task or rebuild an engine, what Crawford is speaking to is cogent engagement with the task at hand.

This type of engagement becomes perhaps most salient when we turn to the issues with the water supply in Flint, MI. Instead of seeking money or, more likely in this case, recognition, the politicians and managers involved should have been far more engaged with the task at hand – delivering clean, potable water to the citizens of Flint. If the politicians, whether elected or appointed, had been more focused on the ‘standards intrinsic to the practice’ and the ideal that public office is a public trust it is highly likely that this issue would never have arisen.

Whether someone is running a business and concerned with how better to measure intangibles or in charge of ensuring drinkable water is being delivered to their citizens the practice requires being engaged, fully, to the task at hand – caring about the act itself, not simply the rewards to be

gleaned from completion of the task. This logic ties directly into the “myopia” and “professionalism” that Steve calls out in his intro to the report and the Caux Round Table speaks to in our *Principles for Government*.

Crawford continues in a similar vein in a later chapter: “When the point of education becomes the production of credentials rather than the cultivation of knowledge, it forfeits the motive recognized by Aristotle: ‘All human beings by nature desire to know’.” Work – whether it revolves around intangible assets, privacy, or government efficacy – needs to be valued and appreciated for its own sake. We must ‘desire to know’ in order to be successful – to receive perfect 10’s as Nadia did – and to fully realize the true moral value of our efforts.

As always I welcome your thoughts,

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