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# Economic Values and Corporate Financial Statements

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## Abstract

Corporate financial statements do not include environmental values. This deficiency has contributed to the criticism that company managers do not include environmental impacts in the internal decision-making process. The accounting profession has not developed effective environmental reporting guidelines. This situation contributes to a second problem: the apparent inability of corporate reports to provide useful information to external parties. It has been suggested that by using nonmarket valuation methodologies, financial statements can be used to measure progress toward sustainable development. Nonmarket valuations are not generally accepted by the accounting profession. They are too subjective to support effective decisions, and too costly to obtain. Furthermore, demand for this sort of information appears small. Some of these issues may be resolved over time. The most serious challenge, however, concerns how enhanced financial reports would be used. Financial statements are supposed to help investors assess

the amount, timing, and uncertainty of future cash flows. A substantial portion of environmental value is based on nonuse benefits, much of which will never be realized in company cash flows. In other words, the role of financial statements would have to change. Furthermore, since there is no general agreement as to the meaning of “sustainable development,” efforts to operationalize the term have been fraught with difficulty. Moreover, monetization of environmental values could jeopardize their preservation, leaving some to question the overall objective of this form of reporting. For these reasons, while it is to be hoped that better reporting of environmental impacts will be forthcoming, the greatest advances will likely be outside the financial statements themselves.

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