Measuring economic developmentHow rich we really are

economist.com/free-exchange/2014/12/11/how-rich-we-really-are

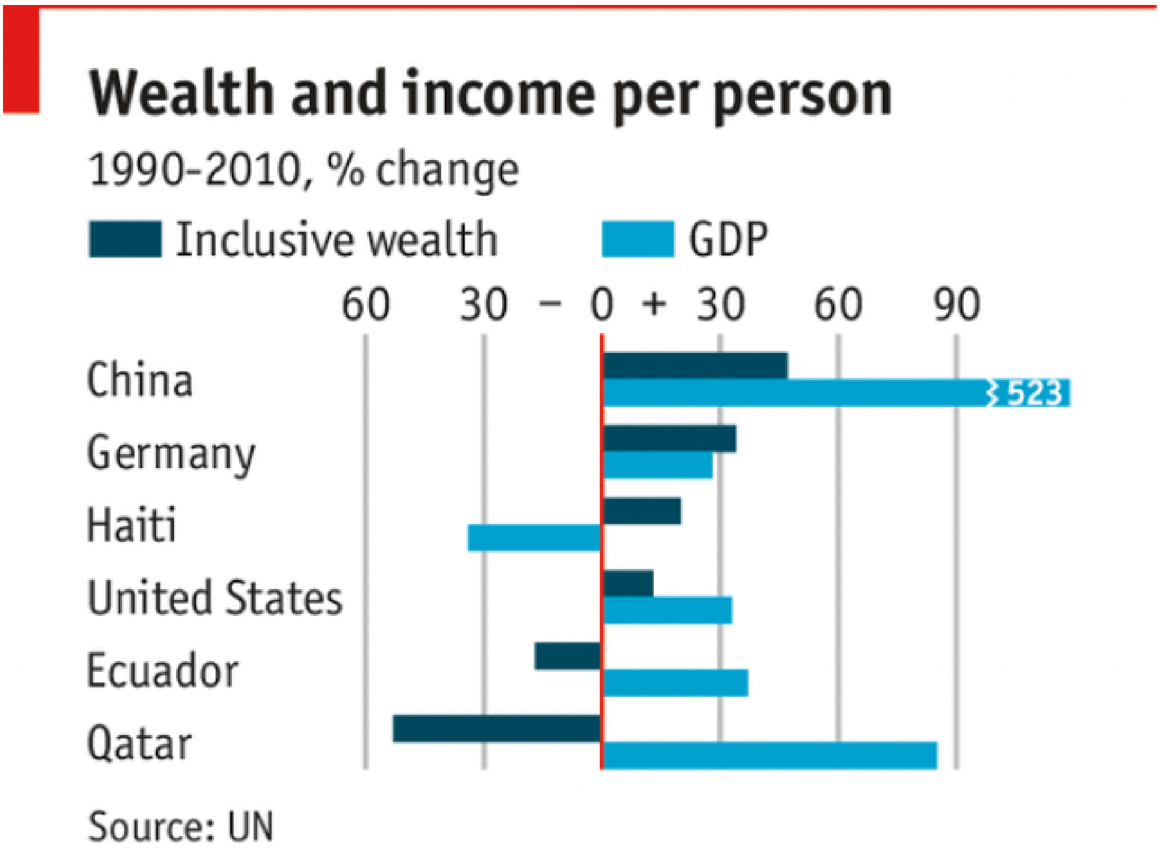
by J.W. and C.W.

THERE IS no widely recognised, monetary measure of a country's natural, human and physical assets. Economists usually make do with GDP (which anyway gauges income rather than assets). But a report published by the United Nations offers a broader indicator: “inclusive wealth”.

It is the second of its kind; the first was published in 2012. The report, overseen by Sir Partha Dasgupta of Cambridge University, puts a dollar value on three kinds of asset: “manufactured” capital (roads, buildings, machinery and so on); human capital (people’s skills and health); and natural capital (including forests and fossil fuels). Statistical wizardry is required: to calculate human capital, for instance, the UN uses figures on average years of schooling, the wages workers can command and the number of years they can expect to work before they retire (or die).

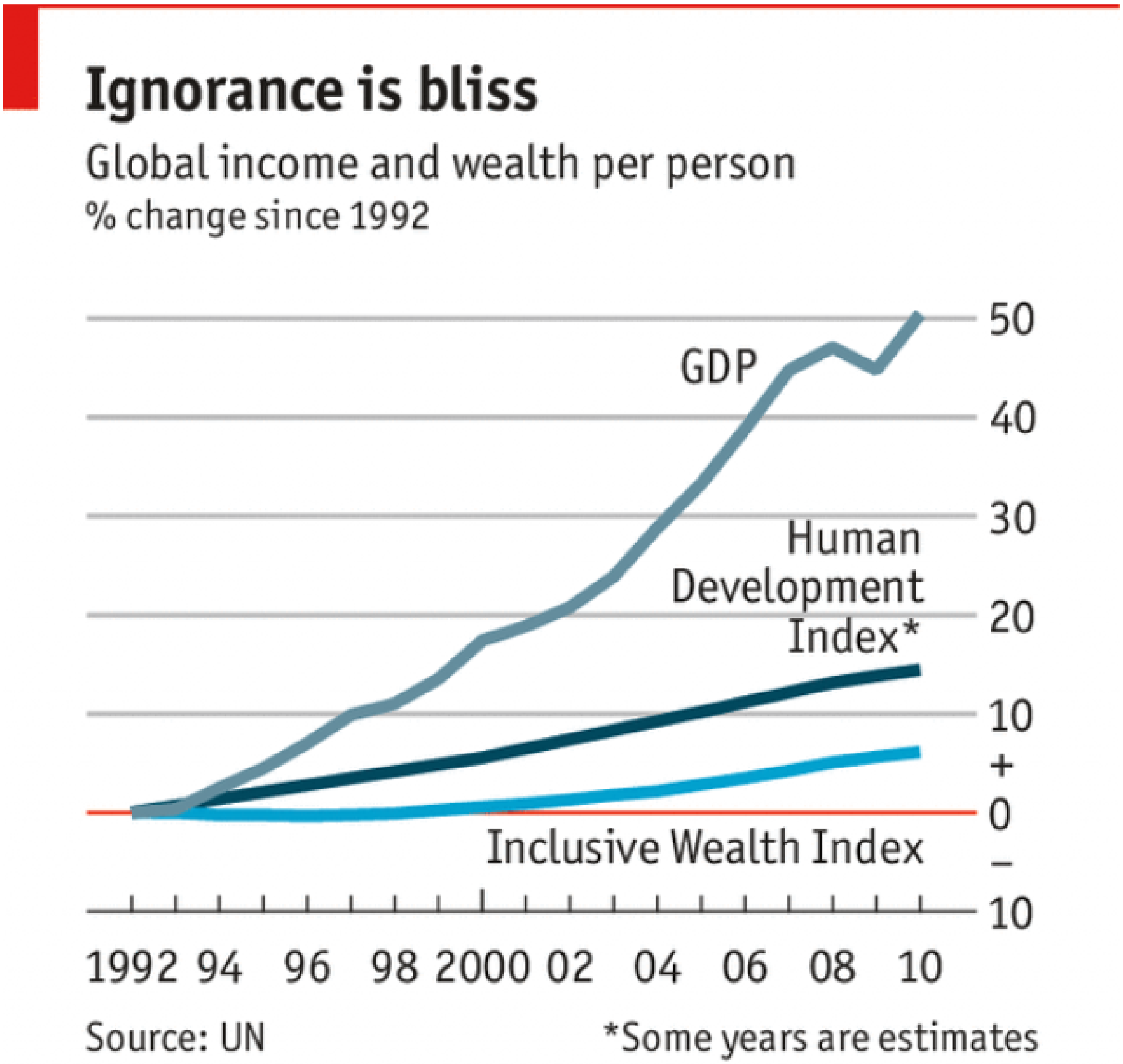
Philosophers blanch at the idea of valuing trees, streams and people in such a crude way. If a human life is valued at $7m, but so is a river, then the implication is that the two things are substitutes for one another.

But it can be a useful practice—in particular, for getting hard-nosed economists to take notice. When taking into account inclusive wealth, the authors show, countries seem much richer. America’s GDP is around $15 trillion; its inclusive wealth is about ten times higher (and is the highest in the world). In 2010 Iceland had the world’s highest per-capita inclusive wealth—over $750,000 per person (in 2005, constant figures).



The report, though, has some depressing messages. From 1992 to 2010 global GDP increased by 50%; but inclusive wealth rose by just 6%. Of the 140 countries studied, 122 increased their per-capita GDP but just 83 increased their inclusive wealth. Just 13 saw their per-person natural capital rise: that implies widespread environmental degradation. Many countries are “consuming beyond their means”, the report notes: in other words, making unsustainable use of resources to power their GDP growth.

Some countries had particularly unusual results: from 1990 to 2010 Qatar’s per-capita GDP rose by 85%; but thanks to depletion of its natural resources, inclusive wealth fell by more than 50% (see chart 1). No other country’s inclusive wealth fell that far—even Afghanistan’s (a 14% fall) or Iraq’s (a 44% fall).



It seems that whenever a new measure comes out, the results are worse than the measure that we used to rely on (see chart 2). GDP is consistently the most optimistic. But that is no bad thing. As Simon Kuznets, who is often credited with inventing GDP, said: “the welfare of a nation can scarcely be inferred from a measure of national income.”