Measuring Wealth Beyond GDP

Indicators such as GDP and the Human Development Index are insufficient to measure true wealth, according to Sir Partha Dasgupta. In this video, the Professor talks about the Inclusive Wealth Report 2012 of which he was a key contributor. The Report's estimates of natural capital is extremely weak, because governments haven't collected data on the state of their natural economy; so, what the inclusive wealth does is to look only at carbon in the atmosphere, only at forests as a source of timber.
Professor's guess is that once in the next 10-15 years we have a better handle on natural capital, then a good deal of the wealth will be in the form of natural capital.
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GDP is based on market prices, whereas the account of wealth requires not only market prices, but prices that we have to estimate on the basis of social values.

Natural Capital Accounting

Food, medicine, animals, this is what the Brazilian Amazon offers to people who live there, but with deforestation this will all go extinct along with the species that the forest protects and feeds.
Brazil has the world's largest tropical forests, with greatest biodiversity it sustains livelihoods and offers valuable services from storing carbon to providing habitat for wildlife, but how much of that bounty is reflected in national income accounts? The answer, not much.
That may be about to change thanks to the Rio + 20 Summit on sustainable development: the World Bank wants governments and businesses to commit to natural capital accounting. This means capturing information on natural assets. Natural Capital Accounting is important to understand the wealth that is stored in our natural resources, the wealth upon which we depend for a lot of that income.
If you want to know the financial health of a company,

take a look at its balance sheet, assets on the one side, liabilities on the other: a country's balance sheet would include assets (roads, factories) and the capital these produce along with human and social capital (education), but it would also include natural capital.
GDP measures mostly produced capital, it's blind to the many benefits provided by living ecosystems.
We are beginning to see the consequences of not having natural capital accounting, we must create an economy that can be sustained for the indefinite future.
In 43 countries classified as low-income, the World Bank estimates that natural capital makes up 36% of total wealth, for many it's the basis of their existence.
There are now internationally agreed standards to account for natural capital: more than 20 nations are already using the UN approved standards (Spain, Costa Rica, Mexico, Madagascar, ecc.)
Natural Capital Accounting does have its critics, Tom Griffiths worries it could create market incentives to exclude the poor, because of a process of dispossession, enclosure (recinto), privatization often to the detriment of the rural poor and rural communities.

INGLESE

TOPIC 1

The Real wealth (ricchezza) of nations

Nations may boast (vantarsi) about their abundant natural resources, their skilled workforce and their world-class infrastructure; but there is no widely recognised, monetary measure that sums up this stock of natural, human and physical assets.
Economists usually settle instead for GDP (Gross Domestic Product), but that is a measure of income, not wealth: it values a flow of goods and services, not a stock of assets.
Happily, the United Nations published balance-sheets for 20 nations in a report, in June 2012: they include 3 kinds of asset → 1) Physical capital (buildings, machinery, infrastructure);
2) Human capital (the population's education and skills);
3) Natural capital (land, forests, minerals).
By this gauge, America's wealth was ten times its GDP in 2008. Its wealth per person was lower than Japan's, which tops the league of this measure. Judged by GDP, Japan's economy was smaller than China's, but according to UN, Japan was wealthier than China in 2008.
Officials say that their country's biggest asset is their people: for all of the countries in the report except Nigeria, Russia and Saudi Arabia, this turns out to be true.
The UN calculate a population's human capital based on its average years of schooling, the wage (salario) its workers can command and the number of years they can expect to work before they retire (or die). The average Japanese has more human capital than anyone else.
Japan is also one of only 3 countries in the report that didn't deplete their natural capital between 1990 and 2008.

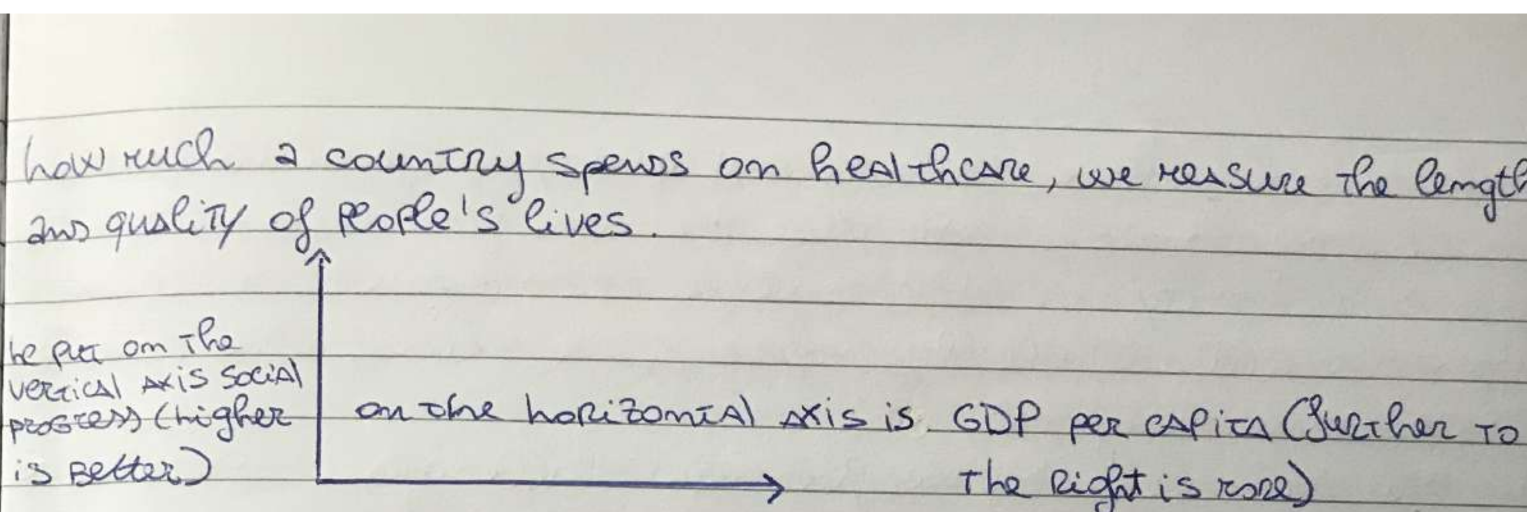
All of the countries (except Russia) increased their wealth, accumulating enough other assets to offset the erosion of their natural capital. In 14 of the 20 countries studied, these increases in wealth outpaced the growth of population, leaving per person wealth higher in 2008 than in 1990.
All 3 kinds of capital are comparable and replaceable: it means that a country can lose $100 Billion-worth of pastureland gain $100 Billion-worth of skills and be no worse off than before. The framework turns economic policymaking into an "asset-management problem", says Sir Partha Dasgupta.
In some richer countries, however, investments in human capital appear to have hit diminishing returns.
Governments should redirect their investments into natural capital, restocking their forests rather than their libraries. The idea that natural assets are replaceable makes some environmentalists nervous: many of the services the environment provides, like clean water and air, are irreplaceable necessities. In theory, the value of these natural treasures should be reflected in their price; in practice, natural assets are often hard to price well or at all. As a consequence, the UN report has to steer clear of assets like clean air that cannot be directly owned, bought or sold. It confines itself to resources like gas, nickel and timber, for which market prices exist. These market prices may not reflect a commodity's true social value.
Let me give you an example: Bees create honey, which can be sold on the market, but they also pollinate nearby apple trees, a useful service that is not purchased or priced.
For these reasons, Sir Partha hopes more economists will do the hard but valuable work of pricing what seemingly priceless. Now that economists have shown that wealth can be measured, they must decide what it should be called. Sir Partha calls it "comprehensive wealth".

TED - Michael Green: What the social progress index can reveal about your country

On January 4, 1934 Simon Kuznets, an economist, delivered a report to the United States Congress that 80 years on, still shapes the lives of everyone on this planet: The report was called "National Income, 1929-1932".
This report is dry as a bone, but is the foundation of how, today, we judge the success of countries, what we know best as GDP: GDP has defined and shaped our lives for the last 80 years.
Kuznets' report was delivered at a moment of crisis: the US economy was plummeting into the Great Depression and policy makers were struggling to respond, because they didn't know what was going on. They didn't have data and statistics, so what Kuznets' report gave them was reliable data on what the US economy was producing, updated year by year. With this information, policy makers were able to find a way out of the slump. Kuznets' report spread around the world, and now today, every country produces GDP statistics.
But Kuznets delivered a warning, on page seven he says: "The welfare of a nation can, therefore, scarcely be inferred from a measurement of national income as defined above".
His message was clear: GDP is a tool to help us measure economic performance, not a measure of our well-being.
We've ignored Kuznets' warning, because we live in a world where GDP is the benchmark of success in a global economy. Markets move based on which countries are going up and which countries are going down, all measured in GDP. Our societies have become engines to create more GDP.

But GDP is imperfect: it ignores the environment, it counts bombs and prisons as progress, it can't count happines of community, it has nothing to say about fairness of justice.
Nevertheless, our world marching to the drumbeat of GDP.
We need a better way to measure our societies, a measure based on the real things that matter to real people.
Am I safe? Do I have rights? Is my future prevented from environmental destruction? Do I live in a society where I'm not discriminated? These are questions that GDP doesn't and cannot answer.
We are ready for a measurement revolution, because we've seen, in the financial crisis of 2008, how our morbosità fetish for economic growth led us so fuori strada far astray.
Today we have the technology to gather and analyze data in ways that would have been unimaginable to Kuznets.
The Social Progress Index: it's a measure of well-being of society, (completely separated) from GDP. It begins by defining what it means to be a good society based around 3 dimensions.
1) The firstly is, does everyone have the basic needs for survival (food, water, shelter, safety)?;
2) Secondly, does everyone have access to the building blocks to improve their lives? (education, health, sustainable environment);
3) The thirdly, does every individual have access to a chance to pursue their goals and dreams free from obstacle? Do they have rights, freedom of choice, freedom from discrimination and access to the world's most advanced knowledge?
These indicators are not indicators of effort or intention, but real achievement. For example, we don't measure

how much a country spends on healthcare, we measure the length and quality of people's lives.



The country in the world with the highest social progress is New Zealand; the country with the least social progress is Chad. The USA are richer than New Zealand, but with a lower level of social progress.
The Senegal is got a higher level of social progress than Chad, but the same level of GDP. So what's going on?
The regression line shows the average relationship between GDP and social progress: at every level of GDP per capita, there are opportunities for more social progress, risk of less; for poor countries, the curve is really steep (RIPIDA), so if poor countries can get a little bit of extra GDP, and if they reinvest that in doctors, water supplies, sanitation, etc... there's a lot of social progress bang for your GDP buck (DOLLARO DI PIL).
On a bit further up the curve, we see it flattening out (appiattisce):
FOR rich countries each extra dollar of GDP is buying less and less social progress.
With more and more of the world's population living on this part of the curve, it means GDP is becoming less and less useful as a guide to our development.
The Social Progress Index reframes the debate about development, not just about GDP alone, but inclusive (equa), sustainable growth that brings real improvements in people's lives.
Imazon, a nonprofit in Brazil, launched (LANCIO) the first subnational Social Progress Index, they did it for the Amazon region.

With this information about the real quality of life in this part of the country, Imazon and other partners from government, business and civil society can work together to construct a development plan that will help really improve people's lives, while protecting the Amazon Rainforest.
In the 21st century we face new challenges (obesity, climate change and so on), so we need new tools of measurement, new ways of valuing progress.

The OECD Better Life Initiative

Organization for Economic Co-operation & Development

The OECD Better Life Initiative was launched in 2011.
The framework developed by the OECD to measure well-being distinguishes between current and future well-being.
Current well-being is measured in terms of both material living conditions and quality of life. The chapter also describes a range of statistical advancements made on measuring well-being.
MATERIAL CONDITIONS → income and wealth; jobs and earnings; housing;
QUALITY OF LIFE → health status; work-life balance; education and skills; social connections; civic engagement and governance; environmental quality; personal security; subjective well-being.
Future well-being is assessed (estimato) by looking at some of the key resources that drive well-being over time and that are persistently affected by today's actions: these resources can be measured through indicators of different types of "capital".
The recommendations from the Stiglitz-Sen-Fitoussi Report

representeD in the OECD Committee on Statics, the OECD well-being framework for measuring current well-being has some distinctive features: first, it focuses on PEOPLE, their situation and how they relate to others in the community where they live and work. There may be differences between the economy-wide assessment of a country and the well-being experience of individuals and households. Second, it concentrates on well-being esiti/obiettivi OUTCOMES as opposed to well-being inputs or outputs, as outcomes provide direct information on people's lives.

Third, it considers the DISTRIBUTION of well-being in the population accanto a Alongside AVERAGE successi achievements, in particular disparities across age groups, gender and individuals' socio-economic backgrounds. As mentioned above, material living conditions and quality of life are broken down into 11 Dimensions:

1. Income & wealth measure the economic resources that people can use today or in the future to satisfy various human needs and wants, and that protect against vulnerabilities and risks of various types.

2. Availability & quality of jobs are relevant for people's well-being, not only because quality jobs increase people's command over resources, but also because these jobs offer the opportunity to soddisfare fulfil one's own ambitions, to develop skills and abilities, to feel useful to society and to build autostima self-esteem.

3. axes Access to housing and its quality satisfy people's basic needs; beyond their intrinsic importance, they are also important determinants of health and subjective well-being, as well as of social connections and access to jobs and public services.

4. Physical and mental health is important in itself for people's well-being, but also because it allows them to perform a range of personal and social activities that contribute to their well-being.

5. Work-life balance is important for people's well-being in terms of family life; more generally, the amount of time that people can devote to leisure, personal care and to other non-work activities help individuals remain healthy and productive.
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6. Civic engagement matters, as having political voice in the society where people live allows them to have a say in political decisions that affect their lives and to contribute to deliberations that shape the well-being of communities; similarly, good governance is needed to translate people's voice into policies that support their aspirations for a good life.
8. Social connections are valuable in themselves as many people report that the most pleasurable activities are performed with others, but they are also instrumental in achieving a number of other important goals such as finding a job.
9. The quality of the natural environment where people live and work is important in its own right, but it also matters for people's health and their ability to undertake a number of activities.
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10. A secure environment, i.e. where the risks of being robbed of assaulted are low, is important to generate well-being.
11. People's subjective well-being, i.e. consider how people feel about their life and experience.

The relative importance of these 11 dimensions will vary among individuals and countries, but they can be considered as universal. For example, Italy includes culture as one of 12 dimensions included in its national well-being indicator BES (Benessere Equo Sostenibile). More importantly, the selection of indicators used to monitor achievements in these dimensions may also differ to reflect specific country conditions, history and challenges.