Countries should implement inclusive wealth accounting

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A report released today provides a path forward for countries to implement inclusive wealth accounting - a better and more comprehensive wealth indicator than GDP.

There is a shared recognition that conventional indicators such as gross domestic product (GDP) are failing to capture the scope countries' wealth. Even in the global recession, many economies appear to be getting wealthier. However, economic development is often happening at the expense of natural capital – what people want or need from nature. Despite significant advances in environmental protection over the past 25 years, humanity has failed to conserve resources, safeguard natural ecosystems or otherwise ensure its own long-term viability. The limitations in conventional economic indicators may be in part fueling unsustainable development because changes in natural assets and environmental services are not factored into national accounts, rendering those accounts less useful as indicators of changes in value.

To address these concerns, the UN University and UN Environment Program, in partnership with the Natural Capital Project, a joint partnership of the Stanford Woods Institute for the Environment, the University of Minnesota's Institute on the Environment, The Nature Conservancy and World Wildlife Fund, released the Inclusive Wealth Report 2012 (IWR) today at the Earth Summit 2012 (Rio+20). The IWR proposes an approach to sustainability based on measuring natural, manufactured, human and social forms of capital. It represents a crucial first step in transforming the global economic paradigm, by ensuring that we have the correct information to assess economic development and well-being – and to reassess our needs and goals.

The IWR introduces an economic index that calculates the wealth of nations and provides a more comprehensive picture of a country's development and well-being than other macroeconomic indicators like GDP. The report provides policymakers with an initial analysis toward a broader and more comprehensive way of measuring progress by looking at the full suite of capital. This report is the first attempt to apply these metrics at a national level for 20 countries around the world.

"Our GDP is predicted to go up because of the Deepwater Horizon Oil Spill in the Gulf of Mexico," says Heather Tallis, a biology research associate at Stanford and lead scientist at the Natural Capital Project. "Do we really think the spill made the United States better off? I don't think so."

Tallis is the lead author of an IWR chapter, Inclusive wealth accounting for regulating ecosystem services. The chapter illustrates how we can start to do national-scale accounting of ecosystem services, even in developing countries with poor data.

Using InVEST (Integrated Valuation of Environmental Services and Tradeoffs), a free and open-source software suite developed by the Natural Capital Project to map and value environmental goods and services, the authors demonstrate how ecosystem services such as drinking water quality and carbon sequestration can be incorporated into inclusive wealth accounting. The approach is demonstrated in Ecuador and Colombia, where the World Bank Wealth Accounting and Valuation of Ecosystem Services program is interested in advancing the cause of inclusive wealth reporting.

More information: Inclusive Wealth Report 2012 www.ihdp.unu.edu/

Provided by Stanford University

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