

Green recovery must end the reign of GDP, argue Cambridge and UN economists

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Our fixation with Gross Domestic Product for over half a century as the primary indicator of economic health has rendered nature "invisible" from national finances, intensifying the biosphere's destruction by omitting its value from the systems that govern us.

This is according to leading economists from Cambridge University and the United Nations, who meet on Tuesday 15 December to help launch a

"statistical standard" that allows governments and banks to calculate the worth of natural "dividends": from fish stocks and carbon 'sinks' to reduced health burdens from purified air.

Almost a decade in the making, the new statistical approach, called "Ecosystem Accounting," had its final consultation on the first of this month, and will go before the UN General Assembly next year with hopes of ratification as the global standard for measuring how the natural world underpins national economies.

"A focus on GDP without proper regard for environmental degradation or inequality has been a disaster for global ecosystems and undermined [social cohesion](#)," said Prof Diane Coyle, who leads "Beyond GDP" research at Cambridge's Bennett Institute for Public Policy and is a key speaker at Tuesday's public event.

"Statistics are the lens through which we see the world, but they have made nature invisible to policymakers. Twenty-first century progress cannot be measured using 20th-century statistics," she said.

While many talk of the need to 'build back better' from the ravages of COVID-19, we cannot recover better without better information to guide us, says United Nations Chief Economist Elliot Harris, who will also speak at the Cambridge-hosted event.

"It is [high time](#) we moved beyond GDP and measured our wealth and success with tools that recognize the value of nature and people. The developments to our System of Environmental Economic Accounting are a giant leap in the right direction," Harris said.

As part of a global team, economists from Cambridge's Bennett Institute for Public Policy such as Dr. Matthew Agarwala have been working with the UN to develop aspects of the new accounting methods. With his

colleague Dimitri Zenghelis, Agarwala has written a guide for treasuries and central banks that the UN will roll out as a training program.

"Some of the ways we currently value nature, what we term 'natural capital,' are just absurd," said Agarwala. "Most parks in the UK, including huge parks in major cities, have an asset value of £1, because they can't be sold.

"Local Authorities have a balance sheet with a £1 asset that costs many thousands in annual upkeep. But this ignores revenues from higher property values in the vicinity. Even worse, it ignores the value of outdoor recreation, cleaner air, and the greatly reduced impact on local health services this creates.

"We now have the framework for putting that information into everyday economic decisions and scaling it up to the national level," he said.

The Bennett Institute also works closely with the UK's Office for National Statistics, early adopters of Ecosystems Accounting during its previous "experimental" phase. ONS work published last year used these methods to reveal the startling value of nature.

"Shading and cooling services" provided by greenery and waterways were valued at almost a quarter of a billion pounds a year in the UK through improved worker productivity and air-conditioning energy savings alone.

Just the [green spaces](#) and rivers in urban areas saved almost £163m annually in healthcare costs, and urban woodland was estimated to be worth £89m a year through carbon removal. Recreation spent in nature just in urban areas was valued at some £2.5 billion a year in the UK.

"We need statistics that can guide us through the new challenges we're

facing—biodiversity loss, inequality, climate change, and automation," said Agarwala. "We are only just scratching the surface of what these accounting methods can reveal."

Two Cambridge graduates at the Central Statistical Office—the precursor to the ONS—James Meade (later a University professor) and Richard Stone, laid the foundations for GDP as we know it: essentially, the value of things and services produced by a given country.

But Cambridge is also home to Prof Sir Partha Dasgupta, considered the father of the modern movement to knock GDP from its pedestal and infuse economics with the worth of life on Earth: from nature to the value of human connection.

Prof Dasgupta will also be speaking at the Ecosystem Accounting event, discussing his landmark commission from the UK Treasury to investigate the economic benefits of global biodiversity—and the costs of its rapid loss.

"Ecosystem services are simply absent from most national statistics," he said. "Vast intellectual energy is given to estimating GDP, but there is little data on the biosphere's capacity to meet human demand for natural goods and services."

Dasgupta describes natural capital as a necessary step towards the creation of "inclusive wealth," in which economics accounts for everything from health and skills to the value of communities—all fundamental to productivity, and all currently gaping holes in national balance sheets.

At the event, Prof Coyle will discuss the major Bennett Institute report she produced with Agarwala called "Building Forward: Investing in a resilient recovery." Published last month, it outlines how inclusive wealth

could be developed in response to the pandemic and the UK's longstanding "productivity puzzle."

"Gaps in economic measurement have contributed to chronic underinvestment in natural and social capital," said Coyle. "Assets such as public green space or personal networks do not have a market price and so are not counted in economic statistics."

This omission of life's fundamentals in national economic calculations is not just a missed opportunity for governments, but a massive risk. "The halls of power have yet to grasp how vital it is to include natural capital in the economy," added Agarwala. "Look at the precipitous falls in fossil fuel value, and that's just one small part.

"The extreme human and economic cost of the pandemic arise from a failure to manage natural capital. It has proved far more costly than it would have been to protect wild habitats and biodiversity in the first place to avoid such zoonotic spillover."

More information: Natural Capital Accounting for Sustainable Macroeconomic Strategies. [seea.un.org/content/natural-ca ... oeconomic-strategies](https://seea.un.org/content/natural-ca...oeconomic-strategies)

Provided by University of Cambridge

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